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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
October 1990

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For Release: Tuesday, November 6, 1990

IF IT IS NOT A RECESSION, WHAT IS IT?

A revision of the industrial production figures to show gains through September suggests that the recession did not begin in July, as originally assumed. Although payrolls peaked in June, the decline prior to September could be explained as the result of reductions in Census workers. The September decline was more than that, but the hours worked in the private sector expanded. As a result, the index of hours worked rebounded to its June level in September. In October, however, the sky fell down.

The manufacturing workweek fell by 0.3 hours while the private workweek fell by 0.5 hours. Thus, the index of hours worked almost certainly will be down sharply this quarter unless the data are severely revised upward. Also, construction lost 80,000 jobs while manufacturing lost more than 60,000 for the second consecutive month. More manufacturing jobs have been lost since January 1989 than in the 1970 recession. While employment was collapsing, hourly earnings remained unchanged. This does not mean that wage inflation vanished, for the job losses were in the high wage sectors. Nevertheless, hourly earnings are only 3.6% above previous year levels, as compared to more than 4.2% earlier in the year. More significantly, declining employment, a shrinking workweek, and no change in hourly earnings means little change in personal income and an actual decline in wage and salary earnings.

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The cumulative downward process that normally typifies recessions occurs because weakness in a few sectors eventually reduces consumer confidence and lowers purchasing power enough to force weakness upon other sectors not directly related to those which instigated the initial employment decline. This appears to be the process that is now evolving.

Of course, extraneous favorable events, such as a large decline in oil prices, could limit the degree of downward damage. Oil prices are falling from unsustainable heights (in the absence of hostilities). Therefore, the damage to the economy from the oil wealth transfer may be less than $80 billion (as compared to the $120 billion consistent with $38 oil in our previous analysis). This should reduce the risk that a severe recession will develop. However, hostilities still could create a much larger economic decline than currently appears likely. Thus, caution remains the appropriate way to approach current conditions.

If the aim of Congressman Gingrich was to get a better budget proposal than one developed by the budget summit, he did not achieve his end. The initial proposal included a significant increase in consumption taxes and actually encouraged some investment activity. Once the Republicans in the house decided to fight any tax increase without the support of their president, the Democrats added an additional wrinkle in the form of soaking the rich. Thus, marginal tax rates, which were largely untouched in the initial proposal, were increased in the final agreement. This was in addition to the reduced deductions for high income earners that was contained in the original proposal.

Although an exclusion was included for capital gains, this merely eliminates the likelihood that capital transactions would receive a higher tax rate in the absence of such an exclusion. Clearly, confusion won the day.

In addition to the class conflict that was interjected into the tax proposals, the final provisions provided a smaller tax collection for gasoline than the increased military costs incurred by the United States to preserve order in the oil producing Persian Gulf. Also, the original concept that medicare recipients along with the uncapping of wages subject to the medicare tax would pay for the shortfall in that system gave way to a break between contribution and benefit in that insurance program. Thus, some equity was lost among programs, even if the total tax burden was considered more equitable.

Raising the marginal tax rate, reducing the consumption foundations of the tax proposals, and reducing any connection between contributions and benefits in one of the government's important insurance programs does not seem to be a good conclusion to the Gingrich revolt.

Although some of the expenditures reductions are substantial, especially in the farm support program, which lost nearly $15 billion, and in the military; the pay-as-you-go restraint upon other expenditures during the next three years remains to be tested. According to this concept, all programs not expressly specified within the agreement or exempted, such as interest and social security, will remain at current levels unless other funds are explicitly generated to change the programs or some other reductions are used to offset the gains. As for the $182 billion reduction in the military, virtually all of that would have occurred in the absence of a budget agreement because of the altered strategic needs of the United States. Moreover, emergencies, such as the Persian Gulf, could abrogate the military declines.

The $32 billion reduction in medicare disbursements is nothing more than a shift in medical cost sharing. Because the government will not pay fully for its clients, other medical clients will make up the difference. Most of this will be reflected in higher medical insurance premiums, which probably will continue to rise by high teens per year through the 1995 agreement period. Thus, the policy of taxing the paying sick to offset the nonpaying sick will continue to be our method of financing health programs.

The consumption taxes begin to bite December 1 with the five cent gasoline tax and then are nearly fully implemented by January 1 with half the cigarette tax, the alcohol tax and the luxury tax. the medicare tax will begin biting later in the year, as higher wage earners exceed their social security caps. Most wealthy tax payers probably will opt for paying the equivalent of their last year's tax, and will not feel the higher tax burdens in their estimated taxes until 1992. Nevertheless, much of the tax displacement (only about $20 billion annually) will reduce economic behavior at the beginning of the year. This pales in comparison to the oil wealth transfer, but it moves the economy in the same downward direction.

Also, the higher excise taxes on gasoline, alcohol, and tobacco will add about 0.2% to prices in 1991. Again, this is not substantial, but it is in the wrong direction.

If the recession began in October and is spreading, as the employment figures suggest, interest rates soon may be coming down. Concern about foreign purchases of American assets apparently did not reflect the additional purchasing power flowing to the Persian Gulf. Saudi Arabia is garnering an additional $70 billion as a result of increased oil production and higher prices. Smaller but still substantial wealth gains are developing for the other oil producing countries. Many of these producers are not willing to substantially increase oil capacity, as they feel the current price gains are temporary. Therefore, a significant amount of this wealth is being placed in short-term securities, especially U.S. treasury securities. Thus, short-term interest rates probably would be falling even without Federal Reserve action. Moreover, the moderation in inflationary fears as oil prices retrace some of their advance should encourage long-term investors. Thus, interest rates should continue falling well into next year.

Recessions are not so favorable for stock prices. However, most of the reduction in operating profits less tax liabilities already has occurred. During the summer months, inventory profits surged by nearly $31 billion. This compares to less than $3 billion in the spring. Apparently, substantial profit illusion will allow many companies to report higher profits even as their adjusted profits are falling sharply. Our analysis indicates that adjusted profits dictate stock market values because they are sustainable. Therefore, the stock market already has reflected the collapse of operating profits. If oil prices fall, inventory profits will decline, leading to a gain in adjusted profits. When coupled with an increase in bond prices, equity values should rise. Our current projections suggest that equity prices may already have reached their annual lows. If the recession remains modest, a stock market rally could begin in earnest by the early winter months. Therefore, investors should not worry about how low the stock market will fall, but rather should be concentrating on their next combination of investments for the recovery market.

Of course, a spurt in oil prices upon the outbreak of hostilities would change the above. Initially, such hostilities could send oil to $70 per barrel. However, prices would not remain long at that level. In the meantime, interest rates would rise and economic activity would slow. For that reason, a substantial holding of cash still is justified. Moreover, the wealth transfer from $70 oil would be four times the current wealth displacement. While the current oil turmoil only slows the world's economy, the higher oil price would generate a worldwide recession. Such a condition would substantially slow the rebound in economic activity in the United States and could generate a wave of financial dislocations. An eye to such an outcome should be cast, but decisions currently should be based upon current oil prices and other conditions with only a modest premium of cash positions in case the latter scenario develops.

Monthly Statistical Highlights

	OCTOBER 1990	NOVEMBER 1990	DECEMBER 1990
Payroll Employment		-66,000	-62,000
Index of Hours Worked		-0.1%	-0.1%
Household Employment		-187,000	-91,000
Civilian Unemployment Rate		5.8%	6.0%
Personal Income	+0.0%	+0.4%	+0.4%
Savings Rate	3.1%	3.1%	3.0%
Personal Consumption	+0.4%	+0.4%	+0.4%
Retail Sales	+0.3%	+0.2%	+0.1%
Auto Sales	9.5*	9.4*	9.3*
Housing Starts	-2.4%	-0.3%	+1.1%
Housing Permits	-0.9%	-0.2%	+0.6%
Construction Expenditures	-0.1%	-0.1%	-0.0%
Business Inventories	+0.5%	+0.5%	+0.4%
Orders for Durable Goods	+1.3%	-1.5%	-0.4%
Orders - Nondefense Capital Goods	+1.3%	-5.0%	-1.1%
Industrial Production	-0.3%	-0.3%	-0.1%
CPI	+0.8%	+0.7%	+0.4%
PPI	+0.4%	+0.7%	+0.4%
Consumption Deflator	+0.7%	+0.6%	+0.4%
Leading Indicators	-0.7%	-0.4%	-0.2%
Currency Index	-3.1%	-2.2%	-1.7%
Equity Index	-1.9%	+2.6%	+1.1%
Real GNP (annual rate)	-3.4%	-3.4%	-1.4%
M1 (annual rate)	-1.4%	+2.8%	+3.1%
M2 (annual rate)	+1.3%	+3.7%	+4.1%

* auto sales in millions

COMMENTARY

EMPLOYMENT-The biggest news in the EMPLOYMENT SITUATION for October was a plunge in the workweek throughout the economy. Some of this could be a distortion caused by the Columbus day holiday, but the declines were too widespread to be totally the result of that. The diffusion index remained at less than 45%, which is in mild recessionary territory. More significantly, job losses were in construction, manufacturing, finance, retail trade, and even business services.

However, initial unemployment claims reached their highest level since 1984 in the week following the Columbus day holiday. Of course, some make-up in claims occurred and a lower claims figure is expected next week. Nevertheless, claims rose and insured unemployment increased in the week following the one used for the employment survey. Unless a substantial reversal develops, further decreases in payroll employment are inevitable in November.

The household survey is showing even a sharper decline in employment than the payroll survey. These two series were not comparable last year, although they normally move in close proximity. The absence of further gains in unemployment is because women over 20 have begun leaving the labor force. Perhaps they are discouraged because of the jobs available, but the participation rate of those women has fallen by 0.4 percentage points in the past two months. If the rate had not declined, unemployment would be 6.0%.

PERSONAL INCOME AND OUTLAYS-All but 0.3 percentage points of the 1.1% rise in consumption during September was the result of higher prices. Nevertheless, real consumer spending continued to grow through the end of the quarter. Much of the gain was in auto sales, which again responded to end of year incentives. Although auto sales remain surprisingly robust after the higher price tags of the new model year, some declines from September sales rates are developing. Also, the savings rate has fallen to 3.5% in September, with higher prices continuing into the fall, consumers will need to restrain spending to rebuild their savings, leading to a decline in inflation adjusted purchases. The surge in service spending may be partially related to weather conditions and should not persist at that level in the fall.

Wage and salary income should decline in October, leading to a further squeeze upon consumer savings. With savings rates approaching 3% in that month, the consumer simply has no capacity to maintain substantial spending until those savings rates have been restored to more normal levels. Although farm income should rebound in the fall, transfer payments probably will grow more slowly than in September.

CONSTRUCTION-The construction industry remains in deep recession. Although orders stabilized in September, they are down 9% for the first nine months. This normally means that construction spending will continue to sag until 9 to 12 months after orders rebound. The weakness appeared especially large in September because public construction fell back to more sustainable levels after a one month spurt. Slow growth is expected in public construction during the next year. However, reductions in nonresidential construction were largely concentrated in commercial activity and in industrial activity. These appear to be economy related and should persist into 1991. Residential construction is declining sharply, in line with the previous decline in housing starts. Unfortunately, no turnaround in housing activity is apparent. Single family sales reached their lowest level of the cycle, although much of the weakness was concentrated in the South. Inventories of unsold new homes are now at a worrisome 8.4 months. Thus, further weakness is more likely than a rebound in the months ahead.

Of course, the continuing weakness in construction has begun to slow construction inflation again. Prices actually fell in September, and further moderation is likely through the fall. Despite the current unfavorable outlook for construction, falling mortgage rates, especially for adjustable mortgages should begin to stimulate housing activity by the spring. Therefore, the traditional leading position for construction appears to be developing in this downturn.

BUSINESS ACTIVITY-Orders for nondefense capital goods rebounded nicely during September, capping a satisfactory rebound from the spring. Therefore, shipments should remain strong into next spring. However, the weakening economy should reduce capital spending during 1991 after adjustment for inflation.

Electrical machinery orders have been weakening for several months, and they were joined by nonelectrical machinery in September. As a result, durable goods orders were off despite the pleasant showing in the nondefense area. Defense spending should continue to decline despite the Iraq crisis. Thus, little strength is expected in manufacturing through next year.

One of the two bright spots is the mild inventory position that most manufacturers have. No accumulated excesses have developed. Therefore, no substantial downturn in production to adjust inventory levels is needed. However, retail inventories are high and could rise rapidly if sales are as weak during the fall as expected. Thus, further weakness in production is likely into the spring to eliminate the retail problems that are beginning to build.

The strength in industrial production is out of proportion to the gains in goods production in the GNP accounts. In the past year, industrial production has increased twice as rapidly as economic activity. This suggests that some problems exist in the measurement that may lead to substantial revisions ahead. Nevertheless, recessions do not begin while industrial activity is rising. For that reason, the revision in industrial production required a revision in our estimates of when the recession began.

PRICES-The consumption deflator has begun to lag behind the CPI. Shifts away from expensive energy may account for this change, as the former is not a fixed weighted system. Even with a substantial slowing in oil prices after October, inflation remains strong until December. The surge in service inflation should slowly ebb but higher auto prices from the weakening dollar will partially offset that improvement. Therefore, the higher than normal price increases from the oil shock may persist somewhat longer than originally expected. In any case, inflation should be subsiding noticeably by the winter.

We cannot capture the third quarter GNP deflator with our formulas. Clearly, the increase only from a fixed weighted 3.9% gain in the spring to 4.1% in the summer makes little sense. To be sure, higher prices for imported oil should have no effect upon the deflator, which reflects price changes for domestic production. But half our oil is produced domestically, and those prices rose too. Also, service inflation intensified, while even construction prices were rising more sharply during the summer.

One possible distortion in the deflator could be caused by the practice of deflating the inventory and fixed investment components with the PPI, which includes only domestic prices. Therefore, whenever imported prices rise faster than the comparable domestic prices, inventories and fixed investment will not reflect the full price effect of the imported goods. Thus, the deflator will be understated. In subsequent quarter, this discrepancy should vanish. Our calculations suggest that the deflator may be understated by as much as 1%. Therefore, our fourth quarter estimate, which is based on our formula, may be understated accordingly. That would suggest that GNP could be overstated by that amount. Fourth quarter estimates could shed considerable light on this potential distortion.

MISCELLANEOUS-Rising oil prices should continue to damage the trade balances for several more months. In fact, oil imports were priced at only $19.70 in August. Clearly, substantially higher oil deficits are likely in the months ahead. However, excluding oil, the trade balances would have improved by nearly a billion dollars. When oil prices subside, a substantial improvement in the trade deficit should reappear.

The leading indicators fell sharply for the second consecutive month, with only orders for plant and equipment showing any gain. Further large declines are virtually guaranteed for October, as sensitive prices are weakening, stock prices are down, consumer sentiment plunged again, the workweek fell sharply, and initial unemployment claims soared. In the past, three consecutive declines in the leading indicators meant a recession was ahead. However, the indicators fell for five months in 1987 with no recession around. In that year, however, weakness was concentrated and many of the declines were small.

The IVA exploded during the summer, leading to a dramatic drop in adjusted profits. Because of this excessive shift in inventory profits, adjusted profits may have reached their cyclical lows at an unusually early phase of this downturn. If so, stock prices may also have already discounted the earnings damage that the recession may bring.

Of course, recession, falling short-term interest rates and rising trade deficits do not support the currency markets. The capital flows needed to offset the trade deficits are not willingly seeking domestic investment opportunities under such conditions. Further weakness in the dollar is likely until either the trade deficits shrink, which will occur after oil prices fall, or capital flows again are attracted. Because assets are cheap in the United States, such flows may be forthcoming once the dimensions of the downturn are realized. Thus, the dollar may begin rebounding in the winter months, but no sharp gains are likely soon.

FINANCIAL MARKETS

Almost every indicator suggested rising interest rates, at least through the quarterly funding. However, the markets apparently had discounted the swelling government deficit and recognized that even the bad budget agreement would reduce deficit financing during the next two years. Indeed, the deficit probably will be peaking in the winter and begin a gradual decline afterwards.

Foreign investors were concerned about further dollar weakness and lower projected returns in the United States than in their own countries, but the dollar's weakness has exposed real values for foreign investors. Moreover, falling interest rates in the United States allow some capital gains in bond investments. Furthermore, enough wealth is flowing to oil producers that the worldwide capital shortage is easing. With some of this wealth returning to American assets, the absence of Japanese investors in the government markets has been muted.

The surge in inventory profits apparently led to peak corporate borrowings in September. Although borrowings remained strong in October (largely through commercial paper placements)inventory profits are now receding. That means that inventory investments are slowing. Although corporate profits remain weak, the quality of those profits are improving. This means that the corporate sector is beginning to pare its borrowing needs.

The household sector has been supplying a reduced amount of funds to the credit markets as rising gasoline prices have caused a collapse in savings. However, mortgages are now falling almost as rapidly. If savings stabilize later in the fall, the falling mortgage rates will begin to lower the net borrowing activity of the household sector.

Together, the borrowing needs are receding along with the economy. Although the Federal Reserve remains reluctant to supply funds, as shown by the decline in money measures in October, economic conditions are now dictating lower rates. In this environment, the absence of Federal Reserve action merely increases the attractiveness of long-term government bonds.

Unfortunately, recession fears are not allowing all bonds to rally. Returns to financial instruments and industrial bonds actually fell in October even as long-term government bonds showed substantial gains. Only when the private issues also are experiencing rising prices will any stimulus in economic activity be forthcoming.

Government supply may cause some gains in interest rates early in the winter, but without hostilities, bond prices probably have bottomed for this cycle.

EQUITY MARKETS-Barring hostilities, the equity markets are finding true value. Although an averaging program should be followed, just in case hostilities provide better values, rising stock values now are likely. Of course, recession proof issues and export oriented issues remain the preferred investments. This includes food products and pharmaceuticals. Technology stocks have some interest, but changing conditions require selectivity. For instance, consolidation in software and the rapid improvement in PC power and networking have significantly changed the technology landscape. Furthermore, the mild recession should prevent substantial gains until the economy has begun to recover.

Some companies without substantial inventory profits may appear to languish in the current environment, but they will outperform the energy and chemical based companies during the rebound. Moderate increases in equity holdings are recommended, although the outlook could change tomorrow if oil prices surge as a result of hostilities.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
April 1990	110177		124.2		118116		5.4	9.96	
May	110617	1.7	124.6	0.8	118350	0.7	5.3	9.98	4.2
June	110829		125.3		118389		5.2	10.03	
July	110740		124.8		117953		5.5	10.07	
August	110613	0.4	124.6	0.6	117658	-1.5	5.6	10.09	4.3
September	110561		125.3		117898		5.7	10.13	
October	110493		123.3		117711		5.7	10.13	
November	110427 *	-0.8	123.2 *	-5.3	117620 *	-0.7	5.8 *	10.17 *	2.8
December	110365		123.1		117559		6.0	10.20	
January 1991	110304		123.0		117503		6.1	10.23	
February	110276	-0.6	122.7	-1.3	117441	-0.6	6.3	10.27	4.0
March	110242		122.7		117403		6.3	10.30	
April	110227		122.6		117396		6.3	10.33	
May	110217	-0.2	122.6	-0.5	117405	-0.1	6.3	10.37	4.0
June	110212		122.7		117423		6.4	10.40	
July	110234		122.8		117454		6.5	10.44	
August	110251	0.1	122.9	1.0	117492	0.3	6.6	10.47	4.2
September	110265		123.1		117515		6.7	10.51	
Chng Sept(91)/Sept(90)		-0.3		-1.8		-0.3			3.8
Chng Sept(90)/Sept(89)		1.6		1.7		0.4			3.7

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	4.605		2.682		196.5		3.911		3.715	
May	4.621	5.6	2.696	7.1	207.2	17.3	3.923	4.6	3.716	4.0
June	4.641		2.711		181.5		3.943		3.761	
July	4.663		2.727		176.1		3.959		3.782	
August	4.673	4.9	2.728	5.6	162.3	-55.4	3.965	4.5	3.803	8.7
September	4.697		2.745		139.9		3.983		3.843	
October	4.699 *		2.739 *		122.5 *		3.982 *		3.860 *	
November	4.718	3.5	2.749	2.2	122.4	-66.5	3.998	2.8	3.876	7.1
December	4.736		2.757		119.0		4.009		3.890	
January 1991	4.753		2.764		125.3		4.033		3.908	
February	4.768	4.7	2.770	3.3	121.5	9.7	4.049	5.6	3.928	5.5
March	4.794		2.779		125.6		4.072		3.946	
April	4.804		2.787		115.8		4.079		3.963	
May	4.825	4.6	2.799	4.1	114.7	-26.2	4.097	4.6	3.982	5.7
June	4.847		2.811		114.7		4.116		4.001	
July	4.870		2.825		114.6		4.136		4.021	
August	4.892	5.8	2.837	5.8	112.9	-1.0	4.155	5.9	4.042	6.1
September	4.918		2.854		116.8		4.178		4.061	
Chng Sept(91)/Sept(90)		4.7		4.0		-16.5		4.9		5.7
Chng Sept(90)/Sept(89)		6.5		5.8		-6.7		6.2		6.8

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	3606.9		480.6		1174.3		1952.0		2675.3	
May	3608.1	4.1	472.9	-10.0	1174.2	1.4	1961.0	4.9	2667.4	0.3
June	3653.2		481.7		1188.4		1983.1		2693.6	
July	3673.9		485.8		1192.1		1996.1		2702.2	
August	3694.1	8.9	476.5	4.0	1202.6	8.3	2014.9	10.4	2698.9	3.6
September	3733.9		487.2		1213.6		2033.1		2706.9	
October	3750.5 *		485.4 *		1222.3 *		2042.7 *		2701.4 *	
November	3766.3	7.2	483.3	0.3	1228.2	8.4	2054.8	8.2	2696.6	-0.7
December	3780.4		482.0		1231.0		2067.3		2695.1	
January 1991	3797.7		482.7		1234.6		2080.4		2696.6	
February	3817.2	5.5	484.8	0.9	1239.0	3.8	2093.4	7.7	2702.9	0.7
March	3835.8		486.5		1242.5		2106.8		2708.4	
April	3852.2		485.8		1247.3		2119.1		2710.1	
May	3871.0	5.8	487.5	2.6	1251.8	4.1	2131.7	7.5	2715.0	1.8
June	3889.7		490.0		1254.9		2144.8		2719.2	
July	3909.4		491.5		1259.6		2158.3		2723.6	
August	3929.8	6.2	493.2	4.4	1265.3	4.4	2171.2	7.6	2728.4	1.9
September	3948.5		494.5		1269.4		2184.6		2730.4	
Chng Sept(91)/Sept(90)		5.7		1.5		4.6		7.5		0.9
Chng Sept(90)/Sept(89)		6.9		0.5		6.3		8.8		1.1

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	147.89		22.78		9.5		94.27		30.84	
May	147.78	-3.6	22.67	8.7	9.3	-6.7	94.26	1.4	30.85	-13.5
June	149.43		22.73		9.9		95.59		31.11	
July	150.20		22.77		9.7		96.00		31.43	
August	149.64	5.5	22.57	-2.3	9.4	7.2	96.80	9.2	30.27	0.2
September	151.25		22.44		10.1		97.67		31.14	
October	151.77 *		22.37 *		9.5 *		98.37 *		31.03 *	
November	152.01	4.3	22.31	-4.4	9.4	-13.0	98.84	8.2	30.86	-1.2
December	152.10		22.35		9.3		99.07		30.68	
January 1991	152.46		22.30		9.3		99.36		30.80	
February	153.04	2.8	22.36	0.5	9.4	-1.4	99.71	3.8	30.97	1.2
March	153.51		22.45		9.4		99.99		31.07	
April	153.82		22.51		9.3		100.38		30.93	
May	154.37	3.6	22.47	2.6	9.4	1.4	100.74	4.1	31.16	2.6
June	154.90		22.56		9.5		100.99		31.35	
July	155.44		22.51		9.6		101.37		31.56	
August	156.09	4.4	22.63	1.7	9.6	8.8	101.83	4.4	31.63	6.4
September	156.56		22.68		9.6		102.16		31.72	
Chng Sept(91)/Sept(90)		3.5		1.1		-5.0		4.6		1.9
Chng Sept(90)/Sept(89)		2.7		-0.4		-4.7		6.5		-5.6

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts Proj	Housing Starts AR%	Single Family Starts Proj	Single Family Starts AR%	Multi-Family Starts Proj	Multi-Family Starts AR%	Housing Permits Proj	Housing Permits AR%
April 1990	1.216		0.898		0.318		1.108	
May	1.206	-53.1	0.897	-53.4	0.309	-53.3	1.065	-65.1
June	1.189		0.889		0.300		1.108	
July	1.153		0.875		0.278		1.082	
August	1.142	-18.6	0.841	-12.9	0.301	-33.5	1.050	-16.3
September	1.135		0.877		0.258		1.006	
October	1.108 *		0.853 *		0.255 *		0.997 *	
November	1.105	-11.2	0.855	-3.2	0.250	-32.7	0.995	-17.2
December	1.117		0.864		0.253		1.001	
January 1991	1.124		0.866		0.258		1.004	
February	1.116	5.3	0.861	3.8	0.255	10.4	1.001	2.8
March	1.133		0.869		0.264		1.009	
April	1.143		0.875		0.268		1.020	
May	1.151	9.7	0.881	7.4	0.270	17.5	1.025	8.3
June	1.158		0.887		0.271		1.030	
July	1.162		0.892		0.270		1.033	
August	1.183	10.7	0.905	10.5	0.278	11.3	1.039	6.3
September	1.196		0.913		0.283		1.050	
Chng Sept(91)/Sept(90)		5.4		4.1		9.7		4.4
Chng Sept(90)/Sept(89)		-10.1		-9.5		-12.2		-23.2

	Non-Residential Proj	Non-Residential AR%	Public Construction Proj	Public Construction AR%	Residential Construction Proj	Residential Construction AR%	Construction Expenditures Proj	Construction Expenditures AR%	Real Construction Expenditures Proj	Real Construction Expenditures AR%
April 1990	138.6		106.0		200.2		444.7		406.0	
May	137.9	-0.6	109.8	-10.4	196.1	-10.1	443.8	-7.5	404.2	-8.9
June	140.1		111.5		189.5		441.1		401.1	
July	144.7		108.1		188.5		442.4		400.7	
August	139.5	4.7	115.1	6.5	186.5	-18.1	442.5	-4.7	400.5	-6.8
September	137.2		109.3		182.2		428.7		389.0	
October	136.7 *		111.1 *		180.6 *		428.4 *		388.4 *	
November	136.9	-9.4	111.5	1.6	179.4	-12.4	427.8	-8.7	387.1	-9.2
December	137.5		111.2		179.0		427.7		386.4	
January 1991	137.1		111.7		178.8		427.6		385.2	
February	137.4	1.2	112.4	2.9	178.9	-1.4	428.7	0.5	385.5	-2.1
March	137.8		112.1		179.4		429.3		385.0	
April	138.4		112.5		179.9		430.8		385.7	
May	137.8	2.2	112.9	3.1	180.5	3.5	431.2	3.0	385.0	0.3
June	138.3		113.4		181.3		433.0		385.9	
July	138.9		113.8		182.2		434.9		386.6	
August	139.2	3.0	114.2	4.7	183.6	6.8	437.0	5.0	387.4	2.1
September	139.5		114.7		184.9		439.1		388.6	
Chng Sept(91)/Sept(90)		1.7		4.9		1.5		2.4		-0.1
Chng Sept(90)/Sept(89)		-1.4		7.9		-5.6		-1.1		-2.6

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	372.3		123.61		36.57		35.30	
May	372.4	-1.3	128.74	10.7	35.93	-21.1	35.30	-3.5
June	370.7		124.69		36.19		36.62	
July	373.3		128.09		39.84		35.10	
August	374.3	3.2	126.98	3.5	35.87	21.4	36.72	4.6
September	376.5		125.21		38.37		36.62	
October	378.4 *		126.78 *		38.87 *		36.75 *	
November	380.1	5.7	124.93	-4.3	36.93	-6.0	36.24	3.7
December	381.3		124.45		36.54		36.43	
January 1991	382.6		124.41		36.21		36.65	
February	383.7	4.1	124.96	-1.1	36.45	-9.5	36.65	2.9
March	385.0		125.72		36.90		36.91	
April	386.3		126.21		37.53		36.84	
May	387.8	4.2	126.05	3.9	37.50	11.6	36.93	1.8
June	389.1		126.43		37.59		36.94	
July	390.5		125.84		36.95		36.82	
August	391.8	4.4	125.89	-1.0	36.65	-8.8	36.69	-1.4
September	393.4		125.97		36.47		36.81	
Chng Sept(91)/Sept(90)		4.5		0.6		-5.0		0.5
Chng Sept(90)/Sept(89)		1.6		0.5		8.3		2.8

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	796.1		8.92		108.8		83.1	
May	800.4	1.5	9.18	30.1	109.4	4.3	83.4	1.8
June	796.5		9.10		110.1		83.7	
July	802.2		8.95		110.3		83.7	
August	806.5	4.3	9.11	-2.3	110.4	3.8	83.6	1.1
September	809.7 *		8.98		110.7		83.6	
October	813.7		8.73 *		110.4 *		83.2 *	
November	817.8	5.8	8.56	-13.1	110.1	-1.1	82.8	-3.8
December	821.1		8.82		110.0		82.5	
January 1991	824.7		8.63		109.8		82.1	
February	827.6	5.1	8.55	-3.9	109.5	-2.2	81.8	-4.7
March	830.9		8.67		109.4		81.6	
April	832.9		8.68		109.4		81.4	
May	836.3	4.2	8.60	2.5	109.5	-0.2	81.2	-2.9
June	839.8		8.73		109.6		81.1	
July	842.7		8.71		109.7		81.0	
August	845.3	4.5	8.74	1.5	109.8	1.2	80.9	-1.5
September	848.8		8.66		110.0		80.9	
Chng Sept(91)/Sept(90)		4.8		-3.6		-0.6		-3.2
Chng Sept(90)/Sept(89)		2.2		-2.3		2.2		-0.4

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
April 1990	129.3		116.6		113.2		130.5	
May	129.6	4.2	117.0	-1.2	113.5	-1.6	131.0	4.7
June	130.2		117.2		113.1		131.3	
July	130.7		117.1		113.2		131.5	
August	131.8	6.5	118.6	6.3	115.9	9.3	132.0	3.4
September	132.8		120.5		118.3		132.7	
October	133.8 *		121.0 *		119.9 *		133.5	
November	134.7	8.8	121.8	10.4	120.3	16.6	134.2	6.5
December	135.2		122.3		120.8		134.8	
January 1991	135.7		122.7		121.0		135.3	
February	136.1	4.6	122.9	3.9	120.9	1.8	135.7	4.6
March	136.5		123.0		120.7		136.1	
April	137.0		123.4		120.9		136.5	
May	137.5	4.1	123.7	2.7	121.1	0.9	137.0	3.8
June	137.9		124.0		121.4		137.4	
July	138.4		124.3		121.7		137.9	
August	138.9	4.3	124.8	3.7	122.1	3.3	138.3	4.1
September	139.5		125.4		122.6		138.8	
Chng Sept(91)/Sept(90)		5.0		4.1		3.6		4.6
Chng Sept(90)/Sept(89)		6.2		5.9		5.5		4.2

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
April 1990	134.8		112.1		129.1		146.0		109.5	
May	135.3	3.7	112.2	-1.0	129.2	3.5	146.7	4.2	109.8	1.0
June	135.6		112.0		130.0		147.0		110.0	
July	136.0		112.2		130.0		147.6		110.5	
August	136.9	5.1	112.3	1.0	131.2	6.3	148.4	5.1	110.5	2.3
September	137.9		112.6		133.1		149.2		110.2	
October	138.8 *		112.8 *		134.7 *		149.8 *		110.3 *	
November	139.7	8.0	113.1	2.6	136.0	13.7	150.4	5.6	110.5	0.4
December	140.3		113.4		136.5		151.1		110.7	
January 1991	140.8		113.6		137.0		151.8		111.0	
February	141.2	4.8	113.9	2.9	137.1	4.0	152.4	5.4	111.2	2.7
March	141.6		114.2		137.1		153.1		111.5	
April	142.1		114.5		137.5		153.7		111.7	
May	142.6	3.9	114.7	2.8	137.8	2.3	154.3	5.0	112.0	2.7
June	143.0		114.9		138.2		154.9		112.2	
July	143.5		115.1		138.5		155.6		112.5	
August	144.0	4.2	115.4	2.5	138.9	3.2	156.2	5.1	112.8	2.9
September	144.6		115.7		139.4		156.9		113.0	
Chng Sept(91)/Sept(90)		4.9		2.8		4.7		5.2		2.5
Chng Sept(91)/Sept(90)		5.7		1.4		7.9		5.1		1.5

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
April 1990	-7.31		145.2		5417		4150		-3.3
May	-7.77	62.0	146.0	0.3	5440	5.1	4154	0.4	-0.7
June	-5.34		146.1		5472		4166		2.0
July	-9.12		146.1		5485		4171		-2.8
August	-9.34	-282.7	144.4	-3.2	5510	5.3	4174	1.8	-34.9
September	-10.10 *		143.3		5545		4179		-65.3
October	-10.56		142.3 *		5562		4167		-61.6
November	-10.29	-30.4	141.8	-7.3	5577	4.7	4155	-1.7	-53.4
December	-9.67		141.5		5593		4150		-42.1
January 1991	-9.31		141.4		5611		4147		-37.6
February	-8.42	48.6	141.8	-0.2	5620	3.2	4142	-1.4	-31.3
March	-8.11		142.2		5633		4140		-30.4
April	-8.36		142.6		5645		4134		-22.7
May	-8.41	20.1	142.2	1.8	5662	3.1	4134	-0.7	-23.8
June	-7.66		142.5		5685		4138		-17.6
July	-7.07		142.9		5715		4146		-14.8
August	-6.63	55.4	143.4	2.8	5744	5.9	4153	1.8	-11.2
September	-6.27		144.0		5779		4162		-10.7
Chng Sept(91)/Sept(90)		37.9		0.5		4.2		-0.4	
Chng Sept(90)/Sept(89)		-13.2		-1.1		5.3		1.1	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	93.51		168.9		8.76		185.61	
May	92.04	-2.0	173.7	16.2	8.83	28.1	191.35	12.7
June	92.43		177.6		8.46		196.68	
July	89.68		167.6		8.50		196.61	
August	86.55	-20.7	150.4	-44.3	8.86	5.3	181.45	-14.5
September	86.10		131.5		9.03		173.52	
October	83.43		130.3		8.84 *		170.27 *	
November	81.63 *	-23.5	131.4	-40.1	8.56	-7.4	174.66	-20.1
December	80.26		133.7		8.49		176.50	
January 1991	79.85		136.4		8.38		179.69	
February	79.82	-9.0	139.2	22.6	8.69	-5.3	174.18	8.0
March	79.94		140.5		8.47		177.67	
April	80.65		144.3		8.28		183.87	
May	82.14	9.4	145.8	21.9	8.13	-13.9	186.37	18.1
June	82.27		147.1		8.19		183.85	
July	83.31		150.4		8.12		186.75	
August	82.28	8.6	153.2	21.3	8.02	-6.2	189.71	7.8
September	84.59		155.2		8.07		188.13	
Chng Sept(91)/Sept(90)		-1.8		18.0		-10.6		8.4
Chng Sept(90)/Sept(89)		-15.5		-16.2		10.8		-10.1

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	304.8		807.3		3277.3		8.26		7.84	
May	305.8	4.1	805.4	3.6	3270.9	2.9	8.18	-0.3	7.76	2.3
June	308.2		809.4		3278.6		8.29		7.63	
July	309.2		809.2		3284.0		8.15		7.52	
August	312.5	8.6	816.2	4.4	3302.0	3.2	8.13	-4.0	7.38	-16.3
September	316.3		822.8		3317.7		8.20		7.32	
October	318.5 *		821.8 *		3321.3 *		7.95 *		7.14 *	
November	319.6	9.1	823.7	3.8	3331.4	3.8	7.73	-19.1	7.01	-19.0
December	320.5		825.8		3342.6		7.54		6.93	
January 1991	322.0		828.4		3353.7		7.51		6.84	
February	323.4	4.9	831.3	3.7	3367.2	4.5	7.36	-17.8	6.76	-15.2
March	324.7		833.9		3385.4		7.24		6.63	
April	326.5		838.1		3397.6		7.21		6.60	
May	328.1	6.0	841.6	5.0	3417.5	5.7	7.02	-16.4	6.49	-12.4
June	329.7		844.7		3432.1		6.91		6.48	
July	331.0		848.3		3447.8		6.78		6.39	
August	332.8	5.7	852.1	5.2	3462.5	5.7	6.76	-14.5	6.40	-7.0
September	334.3		855.9		3479.3		6.79		6.43	
Chng Sept(91)/Sept(90)		5.7		4.0		4.9		-17.2		-12.2
Chng Sept(90)/Sept(89)		8.1		5.1		4.9		-8.6		-5.5

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	9.46		7.44		8.30		8.42		10.00	
May	9.47	9.1	7.35	8.0	8.25	1.1	8.35	5.5	10.00	-1.5
June	9.26		7.24		8.14		8.23		10.00	
July	9.24		7.19		7.99		8.10		10.00	
August	9.41	0.3	7.32	-1.6	7.88	-13.2	7.97	-13.2	10.00	0.0
September	9.56		7.43		7.96		8.06		10.00	
October	9.52 *		7.45 *		8.02 *		8.08 *		10.00 *	
November	9.33	-1.0	7.26	-0.5	7.84	-6.2	7.95	-6.8	9.89	-7.9
December	9.29		7.20		7.59		7.68		9.50	
January 1991	9.25		7.16		7.43		7.57		9.50	
February	9.41	-1.4	7.34	-2.0	7.37	-22.3	7.49	-19.0	9.50	-11.6
March	9.38		7.30		7.22		7.43		9.50	
April	9.27		7.21		7.15		7.22		9.50	
May	9.15	-6.1	7.08	-6.4	7.11	-13.4	7.19	-16.6	9.50	-3.9
June	9.18		7.15		6.98		7.08		9.22	
July	9.20		7.12		6.85		6.99		9.00	
August	9.15	-1.9	7.06	-4.6	6.84	-11.5	6.97	-9.2	9.00	-16.2
September	9.12		7.01		6.91		7.02		9.00	
Chng Sept(91)/Sept(90)		-4.6		-5.7		-13.2		-12.9		-10.0
Chng Sept(90)/Sept(89)		6.1		2.3		-8.4		-8.3		-4.8

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U188o-3

ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS

November 1990

Dr. Donald Ratajczak, Director
For Release: Wednesday, December 5, 1990

WILL THE FED COME TO THE RESCUE?

Although the largest uncertainty overhanging the economy remains the middle east and the availability of oil, the current recession was not caused by oil prices alone. As the thrift bill rose, regulators became determined to insure that the same attempt to grow their way out of trouble would not cross the minds of commercial bankers. They decided to redefine loan quality, leading to a substantial reduction in credit availability for those with hard-to-support business plans or with loan collateral whose value was suspect. This led to substantial reductions in loans to real estate development and to growing small businesses who could not justify their growth plans in terms of conservative criteria. (Do we really want our growth companies to be conservative? Rather, banks should hold a portfolio of such loans so that prudent risk rules are followed. Instead, the regulators want banks to hold no loans with normal risk associated with growth.) Because of these regulatory constraints, loan activity has not grown since last November.

After the regulators began their reinterpretation of prudent risk, the Federal Reserve made a tactical error by linking interest rate reductions to approval of a believable budget restraint by the Congress. As we know, the Congress stalled before passing a program whose spending constraints remain suspect and whose tax increases actually add to inflation through higher consumer prices and reduced savings incentives. While the Federal Reserve was awaiting this package, it stabilized short-term interest rates. However, weakness from the regulatory crunch was reducing the demand for money. If the demand for a commodity is falling, but prices are kept unchanged, then supply must also contract. Therefore, money growth stopped in late summer as the Fed awaited budgetary action. The result was an inadvertent reduction in money growth at a time when the economy was already stalling.

Instead of shifting the mix of macroeconomic policies toward budgetary restraint and monetary ease, the Federal Reserve agreement led to simultaneous restraint in money growth while the Congress was trying to restrain a runaway budget. Restraining fiscal and monetary policy at the same time can easily lead to an economic downturn.

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Of course, the mideast provides the third major factor leading to economic weakness. The wealth transfer associated with rising oil prices already has restrained consumer spending. Moreover, the threat of war has ruffled consumers, causing a shift in the desire to save during these uncertain times. As a result, consumer spending is plummeting. Because of strong rental and corporate fleet sales, auto sales have remained stronger than anticipated. However, this strength should vanish by the winter. While some rebound is likely after that, income growth will remain too low to sustain any meaningful recovery. Because the consumer is leading this downturn, just as she led to expansion, recovery should be gradual rather than abrupt. Those abrupt recoveries occur because of inventory swings. Because just-in-time processing currently is being used, such inventory excesses leading to sharp production curtailments followed by a snapback of economic activity are not likely.

Actually, prospects for the middle east have deteriorated. The shift to an offensive stance adds options, but the opening of diplomatic channels would substantially reduce American credibility in that part of the world if the UN resolutions are not enforced. Apparently, we are drawing a line in the sand, hoping that Hussein blinks, much as the Russians did during the Cuban missile crisis. They may blink, or we may initiate hostilities (probably by forcibly supplying our embassy in Kuwait.) However, the option of containment until the inconsistencies of the Iraqi economy begin to cause interior decay cannot be the outcome of this confrontational approach. (With a million men in arms of 19 million Iraqis and with few guest workers left in the Iraqi economy, a substantial and sustained reduction in living standards must develop. The process appears slow because the Iraqis used the accumulated inventory in Kuwait, but that is a one-time relief from economic stress).

The financial markets have not been disturbed by the apparent removal of containment as an option because war has now been delayed until after the middle of January. Moreover, the discussions offered by the U.S. are seen as an attempt to negotiate a settlement, when they really are a part of the confrontational strategy. Thus, the financial markets will respond to domestic economic conditions until after the holidays, when war again will dominate investors' thinking. Also, the delay of war until mid-January, toward the end of the heating season, means that serious supply disruptions should not impair economic activity until the summer, when any conflict probably will be over. Thus, peak oil prices probably will be no higher than the middle $40s per barrel even if hostilities are damaging to the supply.

In the meantime, the recession is deepening because economic policy remains restrained. While the consensus remains a mild recession, rising unemployment claims and falling construction contracts suggest that a moderate recession is now as likely as a mild affair. With construction contracts down 10% this year, little increase in private expenditures is likely until the second half of next year. As construction normally behaves as a leading indicator of economic recovery, this may delay the upturn until the second half of the year.

Also, some doubts about the strength of world demand, and therefore the growth of American exports has begun to surface. Japan currently faces a liquidity crisis because of the shrinking capital base of its financial institutions. Eurodollar lending rates have soared as Japanese investors seek liquidity. Because this liquidity squeeze dramatically reduces capital flows into Japan for long-term capital, the yen is under attack. As a result, the dollar has actually strengthened recently, but the Japanese expansion clearly is threatened. If Japan falters, all of Asia could slow swiftly. This would substantially restrict American markets.

Furthermore, Eastern Europe is not as ready to spend for infrastructure as most investors wish to believe. The costs of rebuilding in East Germany may approach a half trillion dollars. While the German economy certainly can handle this cost over several years, the remaining states in Eastern Europe clearly will struggle for some time. Some financial analysts already have begun wondering whether Eastern Europe will be the new LDC loan problem.

One hurdle that must be overcome almost immediately is the need for hard currency to buy energy materials after January 1 as Comecon becomes moribund. This additional claim against foreign exchange will delay the day when Eastern Europe will be able to pay off the loans that are currently needed to develop new technologies. Without purchasing power, an unmet need remains unmet.

While regular readers of this report will not readily notice any changes, substantial alterations to the estimating structure have been incorporated in the latest **PROJECTIONS**. The consumption, income, savings relationships have been made more consistent. Of course, not enough monthly data are available to incorporate appropriate wealth effects and expectations responses, but the changes that are being used should improve the consistency of these sectors. The interaction of prices with the GNP deflator also have been changed to reflect the difference between domestic prices and the prices of domestic production (differences in terms of trade should be responsible for much of this discrepancy, but some definitional problems also exist because inventories are deflated with a domestic price index, as explained in a previous report). Because of surging oil prices, the deflator is being held down. However, reports by other forecasting activities persist in holding down the deflator relative to fixed weighted indices even when the terms of trade shift. For that reason, several forecasts currently are understating inflationary conditions. We hope that our adjustments will more appropriately reflect short-term price dynamics. Thus, the deflator will be less than expected when oil prices are rising, as it was during the summer. However, when oil prices begin to fall, the deflator will be stronger than expected. Unfortunately, these distortions with respect to trade terms makes the deflator a poor measure of short-term inflationary conditions.

The pricing relationships between the consumption deflators, the CPI and the PPI also have been altered. Traditionally, we have done well at anticipating changes in the fixed weighted indices but have erred in the deflators. We hope these adjustments will minimize those errors.

Substantial adjustments also have been made to the GNP estimators, the adjusted profits methodology, the stock market valuations, and the leading indicators. Our current analysis assumes a brief period of conflict followed by falling oil prices and consumer relief early in 1991. The rise and subsequent fall in interest rates and the reverse pattern for stock values is reflected in the tables. If our assumptions are correct, even warfare will have only a fleeting, though damaging, impact upon economic conditions. Of course, a prolonged war or extensive damage to oil deliveries will require less favorable conditions.
Of course, the greatest value to this report is the monthly pattern of economic conditions. Our estimates indicate that GNP peaked in August. Indeed, virtually all the 1.7% growth occurred by July. In October, economic activity apparently fell at a 2.8% annual rate. If the November data confirm our **PROJECTIONS**, activity will be falling at a relatively brisk 4%. There no longer is any doubt that a recession is under way.

However, policy makers will err badly by assuming that the middle east crisis caused this weakness and only a resolution of that crisis will end it. Rather, weakness was apparent in the spring because of regulatory restraint and intensified in the summer, at least partially because of Federal Reserve restraint. If those factors are not reversed, even a resolution of the Persian Gulf will not resolve the downturn. The Federal Reserve cannot produce oil, but it can provide liquidity. Federal Reserve action is overdue.

Monthly Statistical Highlights

	NOVEMBER 1990	DECEMBER 1990	JANUARY 1991
Payroll Employment	-107,000	-57,000	-45,000
Index of Hours Worked	0.0	-0.1%	-0.2%
Household Employment	-127,000	-58,000	-48,000
Civilian Unemployment Rate	5.9%	6.0%	6.1%
Personal Income	0.3%	0.4%	0.2%
Savings Rate	3.8%	3.9%	3.7%
Personal Consumption	0.2%	0.3%	0.5%
Retail Sales	-0.2%	-0.1%	0.3%
Auto Sales	9.2*	9.1*	9.1*
Housing Starts	-2.1%	1.2%	1.6%
Housing Permits	-2.1%	0.6%	1.0%
Construction Expenditures	-2.0%	0.0%	0.3%
Business Inventories	0.3%	0.3%	0.3%
Orders for Durable Goods	-2.1%	0.1%	-0.3%
Orders - Nondefense Capital Goods	-10.1%	0.8%	-1.8%
Industrial Production	-0.5%	-0.2%	-0.1%
CPI	0.5%	0.4%	0.4%
PPI	0.3%	0.3%	0.5%
Consumption Deflator	0.4%	0.4%	0.5%
Leading Indicators	-0.4%	-0.1%	-0.1%
Currency Index	-2.2%	-0.4%	-1.0%
Equity Index	5.3%	2.9%	-1.9%
Real GNP (annual rate)	-4.0%	-2.0%	-2.3%
M1 (annual rate)	5.4%	3.9%	4.4%
M2 (annual rate)	-0.2%	7.4%	4.6%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Initial claims, which averaged a recessionary 425 thousand in October, have increased to nearly 480 thousand in November. This assures a substantial decline in payroll employment. However, the November reference week also falls on a holiday, as in October. Therefore, the workweek may not rebound as much as initially expected. The sharp slowing in hourly earnings reflects the loss of high wage jobs rather than any moderation in wage pressures. Once the declines stabilize, some improvement should be expected in this index.

PERSONAL INCOME AND OUTLAYS-As expected, wages and salaries fell sharply, with distributive and service wages falling along with the expected declines in goods production. The workweek should not fall further. Therefore, modest wage growth is likely in the next few months. Personal income was able to increase because of a surge in transfer payments, much of which reflected retirements by government employees. Further gains in such transfers are likely in November before subsiding early next year. Farm income should rebound during the fall, as crop subsidies are distributed.

Even with substantial reductions in consumption after inflation, wages are slowing more rapidly than consumption. Thus, savings continue to decline. When oil prices ease, savings will again rise, but weak economic activity will continue to restrain the growth of consumer outlays.

Auto sales have been supported by strong corporate and rental fleet sales. As those needs are being filled, auto sales should slow sharply. When recovery begins, sales will remain sluggish because of the high cost of auto ownership. However, the most remarkable change in consumer spending is in nondurables, where purchases have actually slowed in current dollars even as inflation has soared. If this reflects expectations of future earnings, as some economists maintain; then the consumer will be much slower to recover from the current slump. In that case, economic activity will continue to slow for all of 1991, and the recession will not be "mild." Certainly, the service sector shows less slowing, although imputed finance and housing expenditures account for some of that stability. Even in services, real spending has slowed to less than 3% in the fall quarter.

CONSTRUCTION-Tight credit conditions are especially impacting apartment construction. Many builders have discovered that FIRREA capital limitations have denied their thrifts from supporting apartment projects. At the same time, commercial banks are not looking for new development loans. The result has been a host of builders who cannot use the permits they already obtained because financing is unavailable. Although apartment construction is very low (occupancy is growing near 400,000 units, leading to a substantial decrease in apartment vacancies),only a gradual rebound is expected. Single family activity also may be approaching a bottom, as gradually falling mortgage rates, especially adjustable rate loans, are attracting a few buyers. Housing sales continued to fall in October, even with a weather related surge in activity in the Northeast. Thus, some further declines are likely before the housing market stabilizes. Certainly, permits, which are falling faster than activity, do not suggest a rebound soon.

Residential construction should fall for the remainder of this year, and could fall several months further than currently projected. The weakness in nonresidential private construction is widespread, although some industrial activity remains. Typically, nonresidential construction remains down until a new recovery is more than six months old. This time, however, the long drop in construction suggests that a turn is likely soon after the national economy turns. Public construction exhibits surprising strength despite weakness in state and local budgets. Sewers, schools, correctional institutions and highways account for this strength. Some release of funds to aid highway construction is expected as the recession progresses. Therefore, gains in public construction should remain substantial.

Construction prices have stalled from the weak demand conditions. Sluggish price changes could persist well into 1991, although some rebound in prices now seems likely, if only because prices of construction materials no longer are slipping.

BUSINESS ACTIVITY-Increased price pressures have added to the dollar values of business inventories. However, a sharp surge in inventory valuations indicate that no real accumulations of inventories is occurring. This suggests that an important volatile sector of the economy will not be a problem during this recession. Some inventory build-up at the retail and wholesale level is likely as spending falls below anticipations. However, the gains at the manufacturing level generally reflect price changes in petroleum products and chemicals. Because some of our internal adjustments suggest that inventories could be overstated during the fall, adjustments were made to the GNP estimates to reflect this. Therefore, some slowing in inventory investment could develop without requiring substantial changes in our GNP projections.

Some economists believe the recession is steep because of weakness in capital spending. However, such spending responds with a lag. This is apparent in **nondefense capital shipments** and in durable goods orders. Most of the current gains in orders reflect aircraft, which will not influence economic activity for another two years. These orders and shipments are expected to fall abruptly in the next few months because of prevailing economic conditions, although no drop has yet occurred. On the other hand, capital spending should follow its normal pattern of lagging the economy.

Industrial production almost certainly has fallen sharply during the fall. Further declines are likely in the winter and spring, as industrial materials continue to weaken. This will cause further reductions in capacity utilization, although the drop should not be precipitous enough to cause cancellations of orders.

PRICES-Our price deflator is now adjusted to capture shifts in the terms of trade. However, this should mean some higher than expected prices when oil prices decline, just as the **deflator** was weaker than expected when oil surged. Because some hostilities are expected by the end of January, a surge in oil prices is expected at that time. Then, prices should moderate significantly, leading to no commodity inflation by the summer. Unfortunately, improvement in the service price indices will be more difficult. While housing services will not be the problem in 1991 that it was in 1990, some delay in utility prices, postage rate increases, and further gains in lodging prices should preserve strong gains in service prices. Even transportation prices will remain strong. If oil and agricultural prices weaken simultaneously by mid-1991, a possible but unlikely outcome, some periods of actual price declines are possible next summer. At this point, however, the CPI is unlikely to average less than a 5% gain for 1991.

In order to generate substantially slower price gains, the economy would need to be significantly weaker than at present, or oil prices need to fall sharply and remain lower than currently expected. Because wages already are lagging behind prices, a deflation outlook also requires a substantial reduction in profitability, which almost certainly will lead to more aggressive employment declines than currently projected. Deflation currently is incompatible with a mild recession.

MISCELLANEOUS-Rising oil prices were responsible for the surge in the trade deficit. As the terms of trade deteriorated, with import prices rising faster than export prices, the deflator also was distorted during the fall, as it was during the summer. These high oil prices should continue to distort the trade balances until early next year. Once oil prices peak, however, the trade balances should improve sharply, leading to some improvement in the dollar's value.

Normally profits would plunge as economic activity drops. However, adjusted profits reflect operating profits less tax liabilities. As inventory profits incur tax liabilities but do not reflect changes in operating profits, most of the profit decline occurred while the IVA was rebounding. With oil prices cresting, some moderation in inventory prices is likely. This leads to reduced tax liability and an improvement in adjusted profits. Also, as interest rate liabilities slow, profits can rise even with gains in wage costs relative to revenues.

The **leading indicators** turned down decisively during the fall. Only orders and orders related conditions showed any strength, and most of those orders reflect aircraft that will not be assembled until the next recovery is well along. The dip in hours probably will not continue but rising unemployment claims and falling sensitive prices remain strong. Stock prices may be stabilizing, while the real money stock probably will begin growing once oil prices peak and begin declining. Building permits, the real money stock, and stock prices should provide most of the strength to signal an upturn in the indicators.

FINANCIAL MARKETS

The dollar's decline clearly has discouraged foreign investors from seeking American assets with one exception, Saudi Arabia. From selling 2 billion barrels at $17, the Saudis now are selling more than 3 billion barrels at nearly $30 per barrel. Because these gains are expected to be temporary, the Saudis have been parking the proceeds in short-term assets. While some of these funds have flowed to Europe, a large percentage has been placed in the United States. As a result, a normally adverse capital flow has been reversed, at least until the wealth holdings of Saudi Arabia change. Aiding this flow is growing concern about the liquidity pressures in Japan. Investors there are seeking liquid assets in Europe, causing a dramatic widening of the spread between the Eurodollar and domestic borrowing rates. This has undermined the strength of Japanese capital flows. This favorable flow of capital to the United States probably would shift after the first quarter, but a falling deficit could strengthen the dollar at that time, leading to more traditional flows from abroad. In any case, concerns that high foreign borrowing needs would continue to push domestic interest rates upward currently is not correct.

Savings in the household sector should continue to fall until the spring. However, household purchases of homes also is off. Therefore, reductions in the households' net contributions to credit markets should remain stable until next fall.

The corporate sector has been borrowing strongly in order to finance short-term operating needs and the bloated value of inventories. These borrowing needs should remain strong during the fall and then moderate in the winter. Moderation should persist into the summer, when a mild recovery should again create rising corporate borrowing activity.

Government borrowings remain intense. Indeed, the deficit probably will increase by $40-$50 billion in the fall and winter quarters. Even the increases in excise taxes will not be able to blunt deteriorating revenues. However, government borrowings should be growing more slowly than corporate borrowings are receding. While s little uptick in rates is likely if hostilities raise oil prices in January or February, the direction of interest rates should be downward under these conditions.

At the same time, the Federal Reserve is expected to be more aggressive in pumping reserves into the banking system. The removal of reserve requirements for CD's already acts to add some earning power to banks and release some reserves for deposit growth. Therefore, short-term interest rates should continue falling into the summer months.

EQUITY MARKETS-Falling interest rates were not enough to overcome falling profits and dollar values during the fall. By the winter, however, adjusted profits could be rising while interest rates should continue declining. Although the dollar may continue falling modestly, the shift in operating profits less tax liabilities (largely because of falling tax liabilities) should be enough to strengthen equity values once the war worries are over. Then a strong market rally is expected in the spring. However, the rally should run out of steam next summer. This is caused by the sluggish nature of the economic recovery. No rebound in stock values such as in 1983 is likely because no rebound in economic activity such as in 1984 is apparent.

The much maligned financial sector may have value now that reserve requirements are falling and short-term interest rates are declining. (Banks normally can stall in lowering their lending rates, leading to an increase in interest rate spreads). Construction materials and equipment companies also look interesting because of the prospects for rebuilding Europe and parts of the Middle East as well as some stirring of construction during the second half of next year in the United States. Because the recovery will be sluggish, cyclical stocks should be underweighted while technology stocks should only perform in line with the market (though positioned software companies should do decidedly better). Growth in foreign markets remains strong, so international corporations should continue to do well. The consumer stocks will be hammered by a poor Christmas. On balance, however, averaging into the market probably will be beneficial, especially after the Persian Gulf crisis eases

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
July 1990	-9.12		146.1		5489		4171		-2.8
August	-9.73	-82.3	144.4	0.3	5518	5.8	4174	1.7	-34.9
September	-9.41		143.3		5555		4172		-39.7
October	-9.55 *		141.6		5562		4162		-42.4
November	-9.86	-10.0	141.0 *	-9.3	5560	3.0	4148	-2.1	-37.6
December	-9.53		140.8		5562		4141		-36.3
January 1991	-10.26		140.6		5564		4133		-32.7
February	-11.42	-54.2	140.9	-0.8	5571	0.7	4122	-2.3	-21.6
March	-10.57		141.1		5576		4124		-15.3
April	-9.78		142.0		5594		4124		-10.4
May	-9.26	46.6	141.7	2.8	5606	3.0	4121	-0.4	-7.8
June	-8.53		141.8		5634		4122		-7.9
July	-8.21		142.1		5668		4136		-8.8
August	-7.47	49.0	142.3	1.5	5694	5.6	4143	1.6	-10.2
September	-7.62		142.7		5705		4137		-10.9
October	-7.33		143.0		5741		4151		-11.6
November	-6.94	39.5	143.4	2.9	5769	5.4	4159	1.6	-12.4
December	-6.28		143.8		5783		4156		-10.5
Chng Dec(91)/Dec(90)		34.1		2.1		4.0		0.4	
Chng Dec(90)/Dec(89)		-40.2		-3.1		5.0		0.3	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	89.68		167.0		8.50		196.61	
August	86.55	-2.0	152.7	-33.3	8.86	5.3	181.45	-14.5
September	86.10		150.5		9.03		173.52	
October	83.43		149.1		8.86		168.05	
November	81.63 *	-22.3	152.1	-12.4	8.50 *	-11.2	176.95 *	-16.6
December	81.27		153.7		8.26		182.13	
January 1991	80.42		155.0		8.41		178.66	
February	79.26	-10.5	159.2	20.1	8.56	-4.3	178.41	10.9
March	79.93		162.0		8.37		183.82	
April	80.45		164.7		8.16		189.86	
May	81.73	8.3	166.0	18.4	8.11	-14.9	190.59	23.3
June	82.26		166.0		8.07		189.55	
July	82.43		165.0		7.96		189.13	
August	82.61	6.5	164.9	-1.4	7.91	-8.4	188.34	-1.4
September	83.28		165.0		7.94		190.53	
October	83.97		164.4		8.06		185.05	
November	83.25	5.9	164.1	-1.0	8.08	7.2	182.46	-12.6
December	84.66		165.3		8.09		181.68	
Chng Dec(91)/Dec(90)		4.2		7.5		-2.1		-0.3
Chng Dec(90)/Dec(89)		-14.3		-9.6		4.6		-5.5

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
July 1990	110740		124.8		117953		5.5	10.07	
August	110613	0.4	124.6	0.6	117658	-1.5	5.6	10.09	4.3
September	110561		125.3		117698		5.7	10.13	
October	110493		123.3		117711		5.7	10.13	
November	110386 *	-0.8	123.3 *	-5.1	117584 *	-0.8	5.9	10.16 *	2.8
December	110329		123.2		117526		6.0	10.21	
January 1991	110284		123.0		117478		6.1	10.24	
February	110273	-0.5	122.7	-1.5	117495	-0.5	6.2	10.27	4.1
March	110258		122.7		117403		6.4	10.30	
April	110227		122.6		117396		6.4	10.33	
May	110217	-0.2	122.6	-0.5	117405	-0.2	6.5	10.36	3.6
June	110212		122.7		117423		6.5	10.39	
July	110234		122.7		117454		6.6	10.42	
August	110251	0.1	122.8	0.5	117492	0.3	6.6	10.45	3.7
September	110265		122.9		117515		6.7	10.49	
October	110294		123.0		117546		6.8	10.53	
November	110352	0.4	123.2	1.2	117621	0.4	6.8	10.57	4.5
December	110398		123.3		117658		6.8	10.61	
Chng Dec(91)/Dec(90)		0.1		0.1		0.1			3.9
Chng Dec(90)/Dec(89)		0.9		-0.1		-0.3			3.9

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	4.664		2.727		184.5		3.959		3.774	
August	4.678	5.1	2.728	5.6	164.5	-49.1	3.969	4.7	3.805	8.4
September	4.699		2.745		145.2		3.985		3.840	
October	4.705		2.736		151.3		3.990		3.839	
November	4.719 *	3.5	2.745 *	1.9	153.9 *	-24.6	4.001 *	3.2	3.847 *	4.5
December	4.737		2.758		155.4		4.015		3.860	
January 1991	4.748		2.753		150.3		4.027		3.877	
February	4.758	3.2	2.766	2.8	145.9	-16.5	4.037	3.5	3.891	4.3
March	4.767		2.767		144.1		4.045		3.901	
April	4.793		2.783		151.2		4.065		3.914	
May	4.811	4.6	2.792	4.1	149.0	8.3	4.079	4.3	3.930	4.2
June	4.830		2.804		148.9		4.094		3.945	
July	4.840		2.805		137.5		4.102		3.965	
August	4.871	4.8	2.825	4.4	145.8	-14.0	4.127	4.5	3.981	5.3
September	4.894		2.839		149.3		4.145		3.996	
October	4.919		2.854		153.6		4.170		4.016	
November	4.944	6.4	2.870	6.8	157.1	38.4	4.189	6.4	4.032	5.4
December	4.969		2.885		158.4		4.209		4.051	
Chng Dec(91)/Dec(90)		4.9		4.6		1.9		4.8		4.9
Chng Dec(90)/Dec(89)		5.3		5.1		-8.9		5.0		5.7

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
July 1990	3665.9		483.7		1192.1		1990.1		2695.2	
August	3696.1	8.5	476.9	3.0	1208.1	9.9	2011.1	9.1	2699.6	3.2
September	3730.9		485.2		1221.0		2024.7		2704.5	
October	3729.9		476.8		1219.6		2033.6		2686.7	
November	3738.1 *	4.6	474.8 *	-5.9	1218.5 *	4.2	2044.8 *	7.5	2681.3 *	-2.5
December	3750.4		472.5		1220.5		2057.5		2679.9	
January 1991	3767.5		473.3		1224.8		2069.4		2680.3	
February	3781.7	4.4	472.1	-1.6	1227.9	2.1	2081.7	7.3	2679.3	-0.1
March	3791.3		473.2		1224.6		2093.6		2686.0	
April	3803.9		475.3		1223.2		2105.4		2690.4	
May	3819.9	4.2	477.7	3.5	1224.9	-0.2	2117.3	7.1	2693.4	1.6
June	3834.8		477.8		1226.9		2130.1		2694.7	
July	3854.0		481.1		1230.5		2142.4		2701.0	
August	3870.4	5.4	482.1	4.3	1234.7	3.0	2153.6	7.0	2704.5	1.6
September	3884.6		482.7		1236.9		2165.1		2705.9	
October	3904.9		486.6		1240.7		2177.5		2711.4	
November	3920.2	5.4	486.7	4.6	1243.1	3.1	2190.4	7.0	2713.4	1.5
December	3938.6		488.9		1246.8		2202.9		2717.7	
Chng Dec(91)/Dec(90)		5.0		3.5		2.2		7.1		1.4
Chng Dec(90)/Dec(89)		5.8		0.5		5.5		7.3		-0.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
July 1990	150.20		22.77		9.7		96.00		31.43	
August	150.24	6.9	22.67	-0.4	9.4	7.2	97.18	10.8	30.40	1.3
September	152.13		22.51		10.1		98.34		31.28	
October	152.32		22.69		9.3		98.14		31.49	
November	152.01 *	3.3	22.53 *	-1.8	9.2 *	-20.2	98.05 *	4.0	31.43 *	4.7
December	151.90		22.43		9.1		98.21		31.26	
January 1991	152.34		22.47		9.1		98.56		31.31	
February	152.46	0.8	22.45	-1.2	9.0	-7.1	98.81	2.1	31.20	-1.8
March	152.31		22.53		9.0		98.54		31.24	
April	152.44		22.58		9.1		98.43		31.43	
May	152.85	1.1	22.61	1.7	9.2	6.0	98.57	-0.2	31.67	4.8
June	153.02		22.54		9.2		98.73		31.75	
July	153.69		22.73		9.3		99.02		31.94	
August	154.14	3.4	22.66	2.0	9.4	9.0	99.36	3.0	32.12	6.0
September	154.38		22.67		9.4		99.53		32.18	
October	155.14		22.84		9.5		99.84		32.46	
November	155.34	3.6	22.80	2.4	9.5	7.3	100.03	3.1	32.51	6.2
December	155.89		22.83		9.6		100.33		32.73	
Chng Dec(91)/Dec(90)		2.6		1.8		5.5		2.2		4.7
Chng Dec(90)/Dec(89)		4.2		0.8		2.2		5.5		2.7

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ARX is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	1.153		0.875		0.278		1.082	
August	1.131	-22.2	0.836	-20.4	0.295	-39.7	1.050	-17.8
September	1.107		0.863		0.244		0.992	
October	1.041		0.854		0.187		0.925	
November	1.019 *	-31.0	0.846 *	-3.2	0.173 *	-81.2	0.906 *	-40.6
December	1.031		0.853		0.178		0.911	
January 1991	1.048		0.863		0.185		0.920	
February	1.058	9.8	0.870	7.2	0.188	22.5	0.934	8.3
March	1.058		0.865		0.193		0.943	
April	1.073		0.875		0.198		0.937	
May	1.086	14.6	0.879	7.9	0.207	49.6	0.956	10.1
June	1.115		0.894		0.221		0.972	
July	1.127		0.899		0.228		0.991	
August	1.135	17.5	0.902	9.5	0.233	56.3	0.995	19.3
September	1.147		0.908		0.239		1.008	
October	1.145		0.899		0.246		1.026	
November	1.166	10.9	0.911	4.0	0.255	40.4	1.044	19.3
December	1.187		0.926		0.261		1.059	
Chng Dec(91)/Dec(90)		15.1		8.6		46.6		16.2
Chng Dec(90)/Dec(89)		-12.3		-7.2		-48.0		-35.7

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	144.7		108.1		188.5		441.3		399.3	
August	139.6	6.0	115.8	7.5	185.8	-10.1	441.2	-7.5	398.4	-8.9
September	138.4		109.4		181.2		428.9		388.8	
October	137.1		117.8		179.5		434.4		394.0	
November	136.7 *	-11.2	110.6 *	8.0	178.2 *	-13.8	425.5 *	-7.7	385.1 *	-7.6
December	136.5		111.4		177.6		425.5		384.4	
January 1991	136.6		111.9		178.3		426.8		385.5	
February	136.0	-1.8	113.5	-1.9	178.1	0.1	427.6	-1.1	385.6	-2.5
March	135.8		112.8		179.0		427.6		384.9	
April	136.2		113.2		179.4		428.8		385.3	
May	136.5	1.2	113.5	2.7	179.8	3.4	429.8	2.5	385.5	0.2
June	136.9		113.8		180.7		431.4		385.9	
July	137.3		114.1		181.3		432.7		386.3	
August	137.8	3.7	115.3	4.7	181.8	4.4	434.9	4.3	387.3	1.4
September	138.2		115.0		182.7		435.9		387.1	
October	138.6		115.5		184.0		438.1		388.4	
November	139.1	3.9	115.9	3.8	184.3	5.5	439.3	4.6	388.4	1.6
December	139.6		116.2		184.9		440.7		388.6	
Chng Dec(91)/Dec(90)		2.3		4.3		4.1		3.6		1.1
Chng Dec(90)/Dec(89)		0.8		4.1		-6.3		-1.5		-3.2

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BUSINESS ACTIVITY

	Manufacturers Inventories Proj	Manufacturers Inventories AR%	Durable Goods Orders Proj	Durable Goods Orders AR%	Non-Defense Capital Goods Orders Proj	Non-Defense Capital Goods Orders AR%	Non-Defense Capital Shipments Proj	Non-Defense Capital Shipments AR%
July 1990	373.3		128.09		39.84		35.10	
August	374.3	3.2	126.98	3.2	35.87	20.9	36.72	4.6
September	376.5		124.94		38.26		36.60	
October	378.1 *		129.45		41.45		36.54	
November	379.6	5.1	126.78 *	3.4	37.25 *	8.2	36.81 *	7.4
December	380.5		126.94		37.53		37.02	
January 1991	381.7		126.53		36.84		36.73	
February	382.5	3.5	126.12	-5.5	36.61	-22.6	36.75	-0.7
March	383.9		125.11		35.58		36.69	
April	385.2		125.42		35.94		36.52	
May	386.8	4.2	125.05	-0.9	35.72	-4.4	36.27	-4.5
June	388.0		126.47		36.15		36.12	
July	389.4		126.93		36.47		36.21	
August	390.9	4.4	126.74	3.3	36.38	4.7	36.25	-0.4
September	392.2		126.34		36.21		36.34	
October	393.8		126.98		36.19		36.47	
November	395.1	4.5	128.11	2.4	36.49	-0.6	36.42	1.7
December	396.5		127.15		36.22		36.37	
Chng Dec(91)/Dec(90)		4.2		0.2		-3.5		-1.8
Chng Dec(90)/Dec(89)		2.7		-3.6		-15.5		5.9

	Business Inventories Proj	Business Inventories AR%	Defense Shipments Proj	Defense Shipments AR%	Industrial Production Proj	Industrial Production AR%	Capacity Utilization Proj	Capacity Utilization AR%
July 1990	802.2		8.95		110.4		83.8	
August	807.5	4.8	9.11	-3.2	110.4	3.7	83.5	1.1
September	811.5		8.91		110.5		83.5	
October	814.6 *		8.76		109.6		82.6	
November	816.8	5.0	8.56 *	-11.8	109.1 *	-4.4	82.0 *	-7.0
December	819.5		8.82		108.9		81.7	
January 1991	822.2		8.74		108.8		81.4	
February	824.8	3.9	8.62	-1.4	108.6	-2.1	81.1	-4.6
March	827.6		8.69		108.5		80.9	
April	830.9		8.73		108.5		80.7	
May	833.5	4.2	8.61	-0.2	108.3	-0.9	80.4	-3.4
June	835.8		8.70		108.4		80.2	
July	838.7		8.71		108.4		80.1	
August	841.8	4.0	8.76	1.9	108.6	0.6	80.1	-1.8
September	844.3		8.69		108.7		80.0	
October	847.2		8.74		108.9		80.0	
November	850.9	4.3	8.77	0.9	109.1	2.0	80.0	-0.3
December	853.6		8.71		109.3		80.0	
Chng Dec(91)/Dec(90)		4.2		-1.2		0.4		-2.1
Chng Dec(90)/Dec(89)		3.2		-10.0		0.3		-2.1

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	130.5		117.5		113.2		131.6	
August	131.5	6.4	119.0	5.9	115.9	9.3	132.2	4.0
September	132.5		120.9		118.3		133.1	
October	133.3		122.2		121.3		133.6	
November	133.9 *	7.3	122.6 *	12.2	120.7 *	18.0	134.0	5.2
December	134.4		123.0		120.1		134.3	
January 1991	135.0		123.6		122.1		134.6	
February	135.5	4.5	124.2	4.1	123.4	5.5	135.2	3.1
March	135.5		123.7		121.5		135.2	
April	135.8		123.6		120.3		135.6	
May	136.2	2.5	123.9	0.0	119.7	-7.5	136.0	3.4
June	136.6		124.1		119.9		136.7	
July	137.0		124.4		120.2		137.0	
August	137.4	3.7	124.6	2.5	120.5	0.4	137.4	4.0
September	137.8		124.9		119.6		137.9	
October	138.3		125.2		121.6		138.3	
November	138.7	3.8	125.5	2.8	122.0	6.4	138.7	3.7
December	139.2		125.8		122.3		139.2	
Chng Dec(91)/Dec(90)		3.6		2.2		1.8		3.6
Chng Dec(90)/Dec(89)		6.9		6.6		6.9		5.9

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	136.0		112.2		130.0		147.7		110.5	
August	136.9	5.2	112.3	0.9	131.2	6.4	148.6	5.5	110.7	1.0
September	138.0		112.6		133.1		149.3		110.3	
October	138.8		112.8		134.7		149.7		110.3	
November	139.4 *	7.3	113.0 *	2.2	135.3 *	12.2	150.3 *	4.8	110.5	0.0
December	139.9		113.1		135.8		150.9		110.7	
January 1991	140.6		113.3		136.6		151.5		110.7 *	
February	141.1	4.5	113.4	1.5	137.3	4.6	152.1	4.8	110.9	1.5
March	141.2		113.5		136.5		152.6		111.1	
April	141.4		113.7		136.2		153.2		111.3	
May	141.8	2.5	113.9	1.7	136.5	-0.9	153.8	4.7	111.5	2.3
June	142.3		114.0		136.8		154.5		111.8	
July	142.7		114.2		137.1		155.0		112.0	
August	143.1	3.7	114.3	1.6	137.4	2.7	155.6	4.7	112.3	2.8
September	143.6		114.5		137.7		156.2		112.6	
October	144.0		114.7		138.1		156.8		112.8	
November	144.5	3.8	114.9	1.9	138.4	3.0	157.4	4.7	113.1	2.9
December	144.9		115.0		138.8		158.0		113.4	
Chng Dec(91)/Dec(90)		3.6		1.7		2.2		4.7		2.4
Chng Dec(91)/Dec(90)		5.9		1.3		9.1		4.9		1.7

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	309.2		809.0		3287.8		8.15		7.52	
August	312.5	8.9	815.8	4.2	3305.3	3.1	8.13	-4.0	7.38	-16.3
September	316.8		822.1		3319.2		8.20		7.32	
October	318.5		820.1		3320.1		8.11		7.16	
November	319.9 *	9.2	823.7 *	3.8	3319.6 *	2.7	7.83 *	-17.9	7.05 *	-19.5
December	320.9		826.3		3339.5		7.36		6.84	
January 1991	322.1		829.3		3352.1		7.22		6.73	
February	323.6	4.9	832.4	4.4	3363.1	4.5	6.93	-36.2	6.65	-20.9
March	325.2		835.4		3375.6		6.67		6.47	
April	326.9		838.1		3389.4		6.55		6.50	
May	328.5	6.0	841.6	4.4	3402.5	4.8	6.59	-19.7	6.53	-4.7
June	329.7		844.7		3417.4		6.57		6.58	
July	331.0		848.3		3431.6		6.62		6.64	
August	332.8	5.4	852.1	5.2	3448.9	5.4	6.65	3.9	6.67	6.9
September	334.3		855.9		3462.7		6.63		6.63	
October	335.9		859.3		3478.5		6.68		6.69	
November	337.3	5.6	863.1	5.3	3491.2	5.4	6.72	5.1	6.71	3.9
December	338.7		867.2		3510.4		6.75		6.73	
Chng Dec(91)/Dec(90)		5.5		4.9		5.1		-8.3		-1.6
Chng Dec(90)/Dec(89)		8.6		4.0		3.7		-12.9		-19.1

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	9.24		7.19		7.99		8.10		10.00	
August	9.41	0.3	7.32	-1.6	7.88	1.1	7.97	-13.2	10.00	0.0
September	9.56		7.43		7.96		8.06		10.00	
October	9.53		7.49		7.98		8.06		10.00	
November	9.31 *	-3.6	7.16 *	-5.4	7.85 *	-9.9	7.98 *	-9.0	10.00 *	-4.3
December	9.11		6.99		7.39		7.53		9.67	
January 1991	9.37		7.22		7.25		7.37		9.50	
February	9.52	5.8	7.46	7.8	7.04	-32.8	7.18	-31.2	9.50	-17.1
March	9.46		7.37		6.73		6.92		9.31	
April	9.25		7.21		6.64		6.81		9.00	
May	9.18	-11.7	7.13	-13.6	6.62	-19.5	6.76	-19.1	9.00	-17.3
June	9.05		6.92		6.65		6.79		9.00	
July	8.97		6.84		6.73		6.85		9.00	
August	8.95	-9.0	6.82	-14.9	6.78	7.2	6.91	5.2	9.00	0.0
September	8.92		6.76		6.75		6.86		9.00	
October	8.97		6.83		6.79		6.92		9.00	
November	8.99	1.2	6.86	2.4	6.81	3.4	6.95	4.3	9.00	0.0
December	8.96		6.85		6.83		6.97		9.00	
Chng Dec(91)/Dec(90)		-1.5		-2.0		-7.6		-7.4		-6.9
Chng Dec(90)/Dec(89)		2.8		0.1		-10.9		-9.5		-7.9

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U1880-3

ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
December 1990

Dr. Donald Ratajczak, Director
For Release: Wednesday, January 3, 1991

IS IT WAR?

Except in the minds of some politicians, the question of whether a recession has begun no longer is interesting. The loss of 900,000 jobs during the past 5 months certainly qualifies as a recession in almost anyone's book. Whether the Federal Reserve will be more concerned about inflation or recession also has been answered. Three downward movements in the federal funds target in six weeks, a reduction in reserve requirements for certificates of deposit and a lowering of the discount rate clearly means recession fighting is being done. The issues now are how long will the Federal Reserve wait for these actions to become effective before sending further incentives at the economy. Also, when will the banks realize that lowering borrowing costs reduce the bad loans in their portfolios and adds to investment fees that ultimately will more than offset the slight gains from a widening spread in the cost of funds.

Certainly, some analysts are wondering whether current price weakness reflects normal adjustments during a decline or whether a secular downward spiral in commodity prices, a deflationary period, has begun. More ordinary than extraordinary price weakness is apparent, but the deflation debate at least has a nice ring to it for bond holders. Soon, the financial markets will begin to focus on how long and how severe this downturn will be. The January 15 deadline and the prospects for war in the Middle East must first be resolved.

The United States currently is following a policy of brinkmanship. By setting a deadline, some action either will be motivated or we must stand prepared to respond to inaction from the other side. Unfortunately, this process only works if the other side believes that war will result without action on their part. By mentioning that our troops may not be ready, some confusion about the importance of the deadline has crept in. Therefore, a conflict could arise because the other side is not sure that we are prepared to engage in hostilities. On the other hand, withdrawing after drawing our line in the sand would virtually rule out U.S. influence in the Middle East, a position we simply cannot accept.

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Realistically, unless Hussein is crazy or unless an accidental war begins, the strongest position for the Iraqis is to withdraw with their military intact and with little support from the world for intervention into Iraq. Nevertheless, brinkmanship will create a temporary surge in oil prices and a short-term surge in interest rates. These conditions will further reduce consumer and investor activity and prolong economic weakness in the United States. Thus, our analysis suggests some war related disruptions in January and February, even if only in the minds of decision makers.

Unless warfare is protracted, an unlikely condition, the weakness in the United States will cause interest rates to fall significantly during the spring. By that time, oil prices also will be sagging. Unless production disruptions are extensive, oil prices are expected to fall to less than $20 per barrel in the summer before slowly rising in the fall. As inflation moderates, consumer purchasing power should rebuild, leading to some economic recovery.

However, the forces leading to a short recession also will be preventing a significant rebound. A typical recession has two stages of weakness. The first stage is caused by the forces creating recession and usually sink the interest sensitive parts of the economy along with consumer durable purchases. Then further consumer retrenchment develops in the nondurables and, with a lag, the services. This reactive part of the recession usually is a pause rather than a sharp continuation of the decline.

Unfortunately, consumer spending reductions lead to inventory excesses at retailing, which quickly spreads to manufacturing as orders are reduced. Manufacturers then provide price concessions and engage in production shutdowns to clear the warehouses. This latter production constraint to remove excess inventories sometimes is even stronger than the initial weakness, and normally drops production well below final sales. Once the warehouses are cleared, production must spring back to sales, causing a spurt in activity.

In this recession, however, production cutbacks and price concessions are occurring almost as quickly as sales are falling. Furthermore, wartime jitters have accentuated consumer caution, leading to a quicker consumer response to weak demand than normal. Therefore, a substantial portion of the recession has been collapsed into a few short months. The result will be a steeper decline early in the downturn but a shorter duration for the recession. It also means that no snapback from recession is likely when the decline ends. Thus, anemic growth will resume following the current weakness.

Monthly Statistical Highlights

	DECEMBER 1990	JANUARY 1991	FEBRUARY 1991
Payroll Employment	81,000	-24,000	35,000
Index of Hours Worked	-0.2	-0.1%	-0.1%
Household Employment	-119,000	-59,000	-108,000
Civilian Unemployment Rate	6.0%	6.1%	6.2%
Personal Income	0.2%	0.2%	0.4%
Savings Rate	3.8%	3.8%	3.8%
Personal Consumption	0.3%	0.2%	0.3%
Retail Sales	-0.0%	-0.4%	0.1%
Auto Sales	8.9*	8.5*	8.4*
Housing Starts	-8.7%	0.0%	1.1%
Housing Permits	-1.0%	0.6%	2.0%
Construction Expenditures	-0.9%	-0.1%	0.3%
Business Inventories	0.2%	0.2%	0.2%
Orders for Durable Goods	5.4%	-0.4%	2.2%
Orders - Nondefense Capital Goods	5.3%	-3.7%	7.0%
Industrial Production	-0.3%	-0.3%	-0.3%
CPI	0.2%	0.5%	0.3%
PPI	0.0%	0.6%	0.2%
Consumption Deflator	0.1%	0.5%	0.3%
Leading Indicators	-0.2%	0.1%	-0.2%
Currency Index	2.2%	0.2%	-2.2%
Equity Index	4.1%	-6.7%	-1.7%
Real GNP (annual rate)	-5.1%	-4.0%	-5.1%
M1 (annual rate)	-0.0%	4.2%	4.6%
M2 (annual rate)	1.2%	3.3%	4.8%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Any lingering doubts about whether a recession had started were removed with the November EMPLOYMENT SITUATION. Not only did payrolls fall 267,000 in November, but the October decline was revised to a 178,000. Only minimal amounts of Census worker reductions were included during the two months. Hours in the private economy improved slightly, but hours worked in manufacturing continued to slip, along with the workweek. Autos were assembled at 5.3 million, but sales actually dipped below that level late in November. The household survey showed an even larger decline, suggesting that further weakness may surface in the payroll estimates in the months ahead.

One relatively mitigating factor was a 110,000 drop in the trade sector. Because Christmas was expected to be weak, the normal seasonal hiring did not fully materialize. When those people are discharged in January, a seasonal uptick in employment is likely. (We expect this to be reflected both in the January and February payroll measures.)

Although hourly earnings appear to have moderated significantly, some of the improvement is the result of more high wage earners losing their jobs. Some wage moderation is expected even after the composition shifts are considered, but wage rates are not easing as much as the hourly earnings index suggests.

Initial claims have settled to a 450,000 weekly pace, but this remains consistent with a decline of nearly 25,000 on a weekly basis in payroll employment. Thus, our employment estimates for the next few months could be too optimistic.

PERSONAL INCOME AND OUTLAYS-A surge in farm subsidies prevented a second consecutive decline in personal income for November. However, wage earnings again fell. Moreover, the subsidies should not diminish in the months ahead. Therefore, little growth is expected in personal income for the next several months. The projected quarterly decline in wage earnings is consistent with minimal growth in nominal GNP for the quarter. Now that interest rates also are falling, interest income should grow more slowly in the months ahead.

Tax rates are expected to rise in 1991, leading to some slowing in the growth of disposable income. Whether enough has been incorporated in our projections remains to be seen.

Although the slump in savings appears to be inconsistent with a consumer led downturn, the paradox of thrift is at work here. People desire to improve their savings because of uncertain times. However, their reduced consumption leads to reductions in employment, which lowers wage earnings. As a result, a desire to increase savings can result in an actual decrease in savings if investment responds to levels of economic activity. As inflation eases, consumers will be able to improve their savings without such drastic cuts in their purchasing power. Therefore, the level of savings should drift upward in 1991.

Although the largest portion of the consumer slump is in the traditional durables area, the 5.1% annualized increase in nondurables purchases is only half the 10.3% increase in prices. Moreover, even services have increased less than 1% after adjustment for inflation. In this case, however, a mild fall contributed to lower utility purchases than expected. With a normal winter developing, a surge in service spending should occur.

The slump in autos is so severe because rental fleets have been providing most of the strength in the fall. This occurred because of a change in strategy to recycle cars to the used car market faster. However, used car prices are now falling because of this increased supply, while purchases probably will slow as the driving season moderates. Therefore, the consumer slump will be more apparent during the winter. By the spring, some growth in auto sales is likely, as current sales trail replacement needs for the auto fleet held by households.

Flat sales for nondurable goods is deceptive during the spring, as nondurable prices are expected to fall more than 2% at that time. Indeed, this price weakness eventually will restore the purchasing power that was lost when oil prices surged.

CONSTRUCTION-Even with an unsustainable surge in apartment activity during November, housing starts plummeted another 21% during the fall. The apartment gains all were in the South and appear to reflect an easing of credit restraints. However, many of those starts were delayed awaiting resolution of regulatory review of lending practices. Now that the review has passed to other regions, especially the Northeast, activity should slump there. Outside the South, no evidence of a rebound in housing is apparent. Permits continue to fall, leading to projections of further weakness ahead.

When interest rates begin falling, more households will be able to afford housing. As completions subside for apartments, rents will rise, leading to stronger single family demand. However, the process will be slow because of the lending constraints currently confronting builders. The normal construction rebound from a recession will be so anemic to be inconsequential. Instead, improving consumer purchasing power and the need to replace aging consumer durables will be the engine out of this downturn.

The surge in public construction is surprising and may be weather related. Certainly, most state and local governments are facing budget constraints at this time.

BUSINESS ACTIVITY-Orders for nondefense capital goods plunged in November, as no aircraft orders followed the United order of the previous month. Given the health of the airline industry, few orders are expected in the months ahead. Also, auto shipments were down sharply. Some rebound is expected here, but nothing substantial. The collapse in orders was so drastic that backlogs are now shrinking. A spiral of layoffs followed by reduced sales and further order cutbacks is possible. Certainly, capital goods will not expand even the 0.6% that the latest capital goods anticipations survey suggests. More likely, spending after inflation will fall 3 or 4% for the year. In addition to transportation, orders were weak for primary metals and electrical machinery. Hopefully, most of the orders takers were on vacation following completion of goals and this report does not constitute a new reality. At any rate, capital shipments will follow their traditional lagged response to economic weakness.

Business inventories remain modest despite sharp price increases during the fall for petroleum based products. Excluding those price changes, inventories actually declined. Further inventory reductions are likely during the winter before a modest rebuilding of inventories begins in the spring. However, retailers are saddled with too many inventories and may continue cutting until the summer months.

Industrial production already has fallen to levels that are justified in terms of prevailing final sales. Some further weakness is likely as the capital goods industries join the slump. Indeed, the plunge in capacity utilization puts even our modest decline in capital shipments at risk. It should be noted that data revisions have caused a drop in industrial activity in September. This sharply increases the case for August as the cyclical peak, although July certainly could be the first month of decline if Census activity is not excepted.

PRICES-The possibilities of war should keep oil prices rising until more settled conditions develop in the Middle East. Therefore, the November price moderation will give way to more substantial price gains by January. However, this should be temporary. Oil prices should plunge in the spring and continue falling into the summer months. Coupled with weak wage gains, inflation should slow dramatically by spring. Even service inflation appears to be moderating.

Nevertheless, the GNP deflator should rise more substantially during the fourth quarter than in the summer. Prices should begin moderating in the spring. Underlying inflation is slowly subsiding, and may be slightly less than 4% at this time. When the one percentage point reduction in energy induced inflation is also considered, inflation rates of less than 3% are possible for 1991. By 1992, however, the underlying inflation rate will again prevail.

MISCELLANEOUS-Although some of the gain in imports reflects higher oil prices, which surged to $29.06 in October from $24.60 in September, inflation adjusted imports grew more than $3 billion in the month. As barrels of oil fell, this was a gain in inventories and final sales of imported goods. Apparently, excess inventories are developing for imported autos and capital goods, which suggests that imports will fall sharply later in the year. In the meantime, another surge in oil prices during January and February, following some relief in

November and December will maintain high trade deficits. As both imports and exports grew by substantial amounts, an accounting error may have occurred.

The dollar has rebounded despite these poor trade balances because of uncertainties surrounding currency realignments in Europe and real estate values in Japan. Also, chaos in the Soviet Union leaves the United States as the only functioning superpower. Although falling interest rates will restore downward pressure to the dollar, falling oil prices and prospects for recovery should reverse the dollar's renewed slide before mid-year. The dollar may fall to 1.35 marks, but could rally to more than 145 yen before the end of the year.

The leading indicators should end their plunge early in the new year. Thus, they should lead the recovery even if they were poor at leading the decline.

FINANCIAL MARKETS

Almost everyone reduced activity during the fall. Housing markets were off sharply, but so was savings. Therefore, the household sector hardly changed their net contributions to credit markets. Corporate cash flow was squeezed but inventory and capital spending also fell. Therefore, corporations slightly reduced their need for capital. Government deficits continued rising, but state and local governments sharply reduced their operating deficits. Therefore, total government borrowing hardly changed. Foreigners disliked yields but liked security in the dollar. As a result, their impact kept changing during the quarter. When underlying inflation began subsiding in this environment, interest rates came down.

Early in 1991, households will continue to shun housing and consumer durables while gradually building assets. Later in the year, assets will be built despite some increased purchases. Thus, the household sector should be contributing to reduced interest rates throughout the year.

Government borrowing may continue to deteriorate into the spring, especially if hostilities develop. However, the worst of the government borrowing already is upon us without serious problems in the credit markets. The quarterly funding early in February may be difficult, especially if the Middle East remains uncertain. However, the government auctions should improve following that period.

Corporate borrowing will remain modest into the spring. Any inventory build-up will remain modest. At the same time, capital spending will fall through most of the year. As corporate earnings, and therefore, corporate cash flow should improve by summer, corporations actually will reduce their need for funds through the year.

International investors may continue to run hot and cold on the dollar. However, an economic recovery and a substantial reduction in our trade balances after mid-year should encourage some capital flows. Therefore, interest rates should fall through much of the year. The Federal Reserve probably will again shift to inflation fighting after the recovery becomes clearer in the summer, but not a lot of inflation will be around. Thus, only modest gains in short-term interest rates are likely even in the latter part of the year.

Long-term rates should fall as inflation falls and then stabilize after inflation begins turning back up toward underlying rates. Thus, the yield curve will continue to steepen as the year progresses.

EQUITY MARKETS-Some weakness in equity values are likely in January as oil prices and interest rates rise to reflect a war premium. However, the markets will again rebound once that war fear is diminished. The summer months should provide the best opportunities for equity investors, as the dollar, interest rates, and earnings all will be favorable. Moreover, as recession recedes and recovery appears, some of the lower capitalized stocks should do well. This included regional financial institutions and utilities. The nimble investor could stay in cash until a Mideast sell-off exposes value. Then a tilt toward long-term bonds during the spring, followed by equity investments during the summer could do well. However, those averaging into their positions also will be well placed for a return to a modest bull market by the summer.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
July 1990	110740		124.8		117953		5.5	10.07	
August	110613	0.5	124.6	0.6	117658	-1.5	5.6	10.09	4.3
September	110612		125.3		117898		5.7	10.13	
October	110434		123.1		117711		5.7	10.12	
November	110167	-1.5	123.4	-5.3	117261	-1.6	5.9	10.13	1.5
December	110086 *		123.1 *		117142 *		6.0 *	10.15 *	
January 1991	110062		122.9		117083		6.1	10.17	
February	110097	-0.6	122.7	-1.6	116975	-1.3	6.2	10.21	2.9
March	110013		122.5		116927		6.3	10.24	
April	109927		122.4		116784		6.5	10.27	
May	109925	-0.4	122.4	-1.0	116724	-0.9	6.6	10.30	3.7
June	109973		122.4		116720		6.7	10.33	
July	109992		122.5		116746		6.8	10.36	
August	110043	0.3	122.6	0.7	116772	0.1	6.8	10.40	3.8
September	110076		122.7		116793		6.9	10.43	
October	110134		122.7		116848		6.9	10.46	
November	110243	0.7	122.8	0.7	116927	0.5	6.9	10.49	3.6
December	110317		122.9		116998		6.9	10.52	
Chng Dec(91)/Dec(90)		0.2		-0.2		-0.1			3.6
Chng Dec(90)/Dec(89)		0.6		-0.2		-0.5			3.3

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	4.663		2.727		184.2		3.958		3.774	
August	4.675	5.0	2.728	5.7	165.0	-46.9	3.966	4.5	3.801	8.4
September	4.698		2.747		150.2		3.983		3.833	
October	4.697		2.732		149.3		3.982		3.833	
November	4.711	2.6	2.728	-0.6	157.8	-28.4	3.994	2.3	3.836	3.9
December	4.720 *		2.729 *		152.2 *		4.000 *		3.848 *	
January 1991	4.728		2.733		151.8		4.006		3.854	
February	4.745	3.0	2.741	1.6	154.0	1.0	4.021	2.8	3.867	2.9
March	4.759		2.747		154.7		4.032		3.877	
April	4.776		2.756		154.5		4.045		3.890	
May	4.795	4.4	2.766	3.8	155.3	5.4	4.061	4.1	3.906	4.1
June	4.814		2.776		156.8		4.076		3.919	
July	4.836		2.788		158.5		4.094		3.935	
August	4.860	5.4	2.804	5.4	160.9	11.6	4.114	5.3	3.953	5.0
September	4.881		2.816		160.2		4.131		3.971	
October	4.902		2.827		160.5		4.148		3.987	
November	4.924	5.2	2.839	5.3	160.7	1.3	4.166	5.3	4.005	5.4
December	4.936		2.852		159.9		4.184		4.024	
Chng Dec(91)/Dec(90)		4.6		4.5		5.1		4.6		4.6
Chng Dec(90)/Dec(89)		5.0		4.0		-10.7		4.6		5.3

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	3664.7		482.9		1192.0		1989.8		2695.0	
August	3692.1	8.0	475.9	3.3	1208.1	9.1	2008.2	8.6	2696.5	2.7
September	3723.4		488.2		1214.8		2020.5		2698.8	
October	3723.6		475.3		1217.0		2031.2		2678.3	
November	3726.5	4.0	466.3	-9.8	1223.5	5.1	2036.6	6.7	2672.1	-3.1
December	3738.3 *		468.7 *		1219.9 *		2049.7 *		2676.5 *	
January 1991	3744.8		462.6		1221.8		2060.3		2667.8	
February	3757.6	3.0	460.6	-7.4	1225.8	1.3	2071.2	6.5	2668.4	-0.8
March	3767.8		460.3		1224.1		2083.4		2673.5	
April	3781.0		463.7		1222.7		2094.5		2679.0	
May	3796.1	4.2	465.9	3.8	1223.7	0.0	2106.5	6.8	2684.9	2.0
June	3809.7		467.0		1225.6		2117.1		2686.0	
July	3825.9		469.3		1227.8		2128.8		2689.1	
August	3843.4	5.1	472.3	6.0	1231.2	2.2	2139.9	6.7	2694.8	1.6
September	3861.1		475.6		1233.0		2152.4		2698.7	
October	3877.7		475.5		1237.9		2164.3		2701.7	
November	3895.4	5.5	478.1	4.9	1240.9	3.5	2176.4	6.9	2705.9	1.8
December	3914.0		480.7		1244.8		2188.5		2710.3	
Chng Dec(91)/Dec(90)		4.7		2.6		2.0		6.8		1.3
Chng Dec(90)/Dec(89)		5.4		-0.3		5.4		6.9		-0.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	150.20		22.77		9.7		96.00		31.43	
August	150.24	6.4	22.67	-0.3	9.4	7.2	97.18	10.2	30.40	1.2
September	151.56		22.56		10.1		97.79		31.21	
October	151.84		22.44		9.3		97.76		31.64	
November	151.62	2.7	22.12	-7.3	8.7	-28.0	98.27	4.2	31.23	5.7
December	151.61 *		22.16 *		8.9 *		97.98 *		31.47 *	
January 1991	151.07		22.04		8.5		98.14		30.89	
February	151.16	-1.6	21.98	-4.6	8.4	-21.8	98.46	1.2	30.72	-8.1
March	150.99		21.92		8.4		98.32		30.75	
April	151.27		22.08		8.5		98.21		30.98	
May	151.60	1.3	22.17	3.2	8.6	6.5	98.29	0.0	31.14	4.3
June	151.87		22.21		8.6		98.44		31.22	
July	152.31		22.26		8.7		98.62		31.43	
August	152.93	3.5	22.31	2.7	8.9	18.3	98.89	2.2	31.73	8.4
September	153.46		22.34		9.2		99.04		32.08	
October	153.83		22.43		8.8		99.43		31.97	
November	154.37	4.0	22.47	3.2	8.9	-1.5	99.67	3.5	32.23	6.1
December	154.98		22.54		9.0		99.98		32.46	
Chng Dec(91)/Dec(90)		2.2		1.7		1.1		2.0		3.1
Chng Dec(90)/Dec(89)		4.0		-0.4		0.0		5.2		3.4

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AR% is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	1.153		0.875		0.278		1.082	
August	1.131	-22.3	0.836	-15.9	0.295	-38.8	1.050	-17.8
September	1.106		0.859		0.247		0.992	
October	1.033		0.856		0.177		0.920	
November	1.129	-21.3	0.772	-22.3	0.357	-18.1	0.907	-42.1
December	1.031 *		0.785 *		0.246 *		0.898 *	
January 1991	1.032		0.793		0.239		0.903	
February	1.043	-6.0	0.805	1.8	0.238	-27.4	0.921	4.0
March	1.069		0.826		0.243		0.928	
April	1.065		0.809		0.256		0.946	
May	1.076	12.4	0.824	7.8	0.252	28.8	0.958	19.4
June	1.096		0.837		0.259		0.973	
July	1.105		0.838		0.267		0.984	
August	1.108	13.5	0.843	11.3	0.265	20.7	0.992	12.0
September	1.128		0.856		0.272		0.984	
October	1.141		0.863		0.278		0.995	
November	1.160	16.5	0.875	13.6	0.285	26.1	1.003	7.2
December	1.170		0.881		0.289		1.014	
Chng Dec(91)/Dec(90)		13.5		12.2		17.5		12.9
Chng Dec(90)/Dec(89)		-19.1		-15.7		-28.1		-36.6

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	144.7		108.1		188.5		441.3		399.3	
August	139.6	-6.0	115.8	7.5	185.8	-10.1	441.2	-7.5	398.4	-8.9
September	138.4		109.4		181.2		428.9		388.8	
October	137.1		117.8		179.5		434.4		394.0	
November	136.7 *	-11.5	112.8 *	10.6	179.0 *	-13.4	428.5 *	-7.0	387.8 *	-6.9
December	136.2		111.2		177.4		424.8		383.7	
January 1991	135.8		111.5		177.0		424.3		383.6	
February	135.5	-3.4	112.6	-5.6	177.6	-3.3	425.7	-3.9	384.6	-4.7
March	135.2		112.8		176.8		424.8		383.4	
April	135.0		113.2		175.6		423.8		381.8	
May	135.2	-1.0	113.5	3.7	175.9	-2.7	424.6	-0.5	382.2	-2.0
June	135.3		113.3		176.3		424.9		381.8	
July	135.1		113.8		176.8		425.7		381.8	
August	135.4	0.8	114.2	3.1	177.5	3.4	427.1	2.5	382.7	0.6
September	135.8		114.6		177.9		428.3		383.1	
October	136.2		114.9		178.4		429.5		383.5	
November	136.3	2.8	115.2	3.4	179.2	3.9	430.7	3.4	383.9	1.3
December	136.6		115.4		179.7		431.7		384.1	
Chng Dec(91)/Dec(90)		0.3		3.8		1.3		1.6		0.1
Chng Dec(90)/Dec(89)		0.7		4.1		-6.5		-1.5		-3.2

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AR% is the annualized percentage change from the previous quarter.

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	373.3		128.09		39.84		35.10	
August	374.3	3.2	126.98	3.2	35.87	20.9	36.72	4.6
September	377.0		124.97		38.29		36.60	
October	377.3		129.48		41.62		36.55	
November	377.0 *	2.3	115.94	-12.4	34.79	-3.3	36.07	1.3
December	376.6		122.23 *		36.63 *		36.16 *	
January 1991	376.9		121.76		35.27		35.89	
February	378.1	0.7	124.45	4.6	37.72	-7.7	36.11	-1.2
March	378.0		125.56		37.81		36.44	
April	378.5		125.53		36.69		36.11	
May	379.0	1.5	126.14	5.9	37.14	-2.6	36.28	-0.1
June	379.6		125.43		36.25		36.02	
July	380.4		124.47		35.56		36.11	
August	381.1	2.4	125.11	-2.5	35.59	-9.5	35.54	-3.4
September	382.3		125.12		36.21		35.82	
October	383.6		125.21		36.02		35.84	
November	384.9	3.8	125.78	2.7	36.18	4.8	35.95	1.3
December	386.1		126.18		36.43		36.02	
Chng Dec(91)/Dec(90)		2.5		3.1		-0.5		-0.4
Chng Dec(90)/Dec(89)		2.3		-7.2		-17.5		3.4

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	802.2		8.95		110.4		83.8	
August	807.5	4.8	9.11	-3.2	110.5	3.7	83.6	1.1
September	810.8		8.91		110.4		83.3	
October	813.9		8.78		109.4		82.4	
November	815.6 *	4.4	9.19	-5.1	107.5	-8.4	80.9	-10.7
December	817.3		8.65 *		107.2 *		80.4 *	
January 1991	819.0		8.73		106.9		80.0	
February	820.2	2.3	8.67	-6.9	106.6	-4.8	79.6	-7.5
March	821.5		8.75		106.6		79.4	
April	823.0		8.79		106.3		79.0	
May	824.6	2.1	8.76	5.0	106.0	-2.1	78.6	-4.8
June	825.9		8.92		106.1		78.5	
July	827.8		8.91		106.4		78.6	
August	830.4	2.8	8.95	4.1	106.8	1.9	78.7	-0.7
September	832.5		8.88		106.7		78.4	
October	835.3		8.93		107.0		78.5	
November	837.4	3.7	8.91	0.1	107.4	2.3	78.7	-0.2
December	840.9		8.91		107.3		78.4	
Chng Dec(91)/Dec(90)		2.9		3.0		0.1		-2.5
Chng Dec(90)/Dec(89)		2.9		-11.7		-1.3		-3.6

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AR% is the annualized percentage change from the previous quarter.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	130.5		117.5		113.4		131.6	
August	131.5	6.4	119.0	5.9	115.9	9.3	132.2	3.7
September	132.5		120.9		118.3		133.0	
October	133.3		122.2		121.3		133.6	
November	133.7	6.7	122.8	12.2	120.6	17.6	133.9	4.7
December	133.9 *		122.8 *		120.1 *		133.9	
January 1991	134.6		123.5		122.1		134.5	
February	135.0	3.8	123.8	3.1	123.4	5.6	135.1	3.4
March	135.1		123.4		121.5		135.2	
April	135.3		123.2		120.3		135.4	
May	135.6	2.1	123.2	-0.9	119.7	-7.5	135.7	2.6
June	136.0		123.4		119.9		136.3	
July	136.4		123.7		120.2		136.7	
August	136.7	3.4	123.8	1.9	120.5	0.4	137.0	3.7
September	137.2		124.1		119.6		137.4	
October	137.6		124.4		121.6		137.8	
November	138.0	3.7	124.7	2.6	122.0	6.4	138.2	3.6
December	138.4		124.9		122.3		138.6	
Chng Dec(91)/Dec(90)		3.4		1.7		1.8		3.5
Chng Dec(90)/Dec(89)		6.2		6.7		6.6		4.5

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	136.0		112.2		130.0		147.7		110.5	
August	136.9	5.2	112.2	0.7	131.2	6.6	148.6	5.5	110.7	1.0
September	138.0		112.5		133.3		149.3		110.3	
October	139.0		112.8		134.6		150.2		110.3	
November	139.5	7.3	112.6	1.4	134.9	10.3	150.8	6.1	110.5 *	0.0
December	139.7 *		112.7 *		134.8 *		151.2 *		110.7	
January 1991	140.4		112.9		135.5		151.9		110.6	
February	140.8	3.8	113.0	1.2	135.8	2.1	152.5	4.8	110.7	0.7
March	140.9		113.2		135.1		153.1		110.8	
April	141.1		113.5		134.7		153.7		111.0	
May	141.4	2.1	113.5	1.9	134.6	-2.1	154.3	4.8	111.1	1.6
June	141.8		113.7		134.9		154.9		111.3	
July	142.3		113.9		135.2		155.5		111.5	
August	142.6	3.4	114.1	2.0	135.3	1.9	156.1	4.7	111.6	1.8
September	143.1		114.4		135.6		156.7		111.8	
October	143.5		114.6		135.9		157.3		112.0	
November	144.0	3.7	114.8	2.5	136.2	2.5	157.9	4.7	112.2	2.0
December	144.4		115.1		136.5		158.5		112.4	
Chng Dec(91)/Dec(90)		3.4		2.1		1.3		4.8		1.5
Chng Dec(91)/Dec(90)		5.7		1.0		8.1		5.1		1.7

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
July 1990	-9.12		146.1		5489		4171		-2.8
August	-9.73	-81.4	144.4	0.3	5518	5.3	4172	1.4	-25.3
September	-9.33		143.3		5538		4165		-34.0
October	-11.61		141.6		5520		4131		-41.6
November	-9.56 *	-48.5	140.1 *	-10.9	5538	0.7	4137	-3.8	-35.7
December	-9.94		139.8		5516		4119		-30.6
January 1991	-10.53		139.9		5521		4105		-31.5
February	-11.86	-2.9	139.7	-1.5	5521	0.5	4087	-2.8	-34.7
March	-8.94		140.3		5554		4108		-17.4
April	-8.72		140.6		5552		4100		-15.6
May	-8.24	59.5	140.9	2.9	5566	2.4	4103	-0.2	-10.2
June	-8.04		141.4		5575		4091		-2.1
July	-7.94		141.2		5610		4104		2.8
August	-7.53	32.3	141.5	1.5	5637	4.9	4115	1.1	-3.4
September	-7.21		141.8		5646		4109		-10.6
October	-6.74		141.5		5677		4119		-11.4
November	-6.56	42.0	141.9	1.0	5690	4.8	4117	1.2	-10.5
December	-6.49		142.2		5724		4128		-9.4
Chng Dec(91)/Dec(90)		34.7		1.7		3.8		0.2	
Chng Dec(90)/Dec(89)		-31.6		-4.9		5.0		0.3	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	89.68		164.0		8.50		196.61	
August	86.55	-2.0	159.6	-24.7	8.86	5.3	181.45	-14.5
September	86.10		158.3		9.03		173.52	
October	83.43		157.3		8.86		168.05	
November	82.15	-18.1	159.5	-3.5	8.54	-11.0	172.21	-21.3
December	83.96 *		160.8		8.23 *		179.23 *	
January 1991	84.14		156.0		8.51		167.30	
February	82.26	-2.7	155.0	-3.6	8.56	-6.1	164.49	-6.1
March	81.43		162.2		8.16		179.61	
April	81.62		158.9		7.92		180.43	
May	81.88	-2.2	156.6	-0.1	7.74	-28.6	181.02	31.6
June	82.93		157.6		7.53		186.26	
July	84.14		161.5		7.41		193.06	
August	84.29	11.1	160.9	8.4	7.52	-10.9	188.59	19.1
September	84.56		160.3		7.60		190.53	
October	84.21		163.7		7.63		192.82	
November	84.58	1.0	166.1	11.4	7.74	11.5	191.91	1.9
December	84.82		166.2		7.78		190.15	
Chng Dec(91)/Dec(90)		1.0		3.4		-5.5		6.1
Chng Dec(90)/Dec(89)		-11.5		-9.6		4.2		-5.5

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AR% is the annualized percentage change from the previous quarter.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
July 1990	309.2		809.0		3287.8		8.15		7.52	
August	312.6	8.9	815.8	4.2	3305.3	3.1	8.13	-4.0	7.38	-16.3
September	316.8		822.1		3319.8		8.20		7.32	
October	317.9		820.0		3321.0		8.11		7.16	
November	319.3	8.0	822.6	3.0	3318.4	2.0	7.81	-18.2	7.03	-21.7
December	319.6 *		822.5 *		3321.7 *		7.36 *		6.71 *	
January 1991	320.9		825.3		3330.6		6.93		6.82	
February	322.4	4.6	828.4	3.3	3343.7	2.8	6.75	-44.3	6.73	-15.6
March	324.3		831.2		3356.1		6.43		6.48	
April	325.8		834.4		3370.2		6.18		6.22	
May	327.2	6.1	838.2	4.7	3383.7	4.9	5.96	-33.9	5.98	-32.6
June	329.1		841.2		3396.8		5.99		5.95	
July	330.2		844.7		3414.2		6.04		5.99	
August	332.0	5.7	847.6	4.7	3431.6	5.8	6.11	2.2	6.03	-0.4
September	333.6		850.3		3450.2		6.08		6.11	
October	335.4		854.2		3463.4		6.13		6.15	
November	337.3	6.2	858.4	5.1	3478.2	5.7	6.15	6.5	6.22	12.0
December	338.1		862.1		3497.6		6.24		6.28	
Chng Dec(91)/Dec(90)		5.8		4.8		5.3		-15.2		-6.4
Chng Dec(90)/Dec(89)		8.1		3.5		3.1		-12.9		-9.6

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
July 1990	9.24		7.19		7.99		8.10		10.00	
August	9.41	0.3	7.32	-1.6	7.88	1.1	7.97	-13.2	10.00	0.0
September	9.56		7.43		7.96		8.06		10.00	
October	9.53		7.49		7.98		8.06		10.00	
November	9.30	-4.3	7.18	-3.4	7.91	-3.5	8.03	-4.2	10.00	-0.3
December	9.07 *		7.08 *		7.73 *		7.78 *		9.98 *	
January 1991	9.36		7.25		7.54		7.63		9.50	
February	9.43	0.9	7.33	-1.3	7.02	-33.4	7.20	-32.1	9.50	-23.6
March	9.17		7.10		6.78		6.84		9.03	
April	8.89		6.92		6.13		6.28		8.76	
May	8.78	-22.5	6.85	-20.8	5.97	-48.8	6.11	-46.8	8.50	-28.7
June	8.56		6.68		5.95		6.12		8.50	
July	8.41		6.43		6.05		6.19		8.50	
August	8.45	-12.2	6.46	-18.7	6.13	5.7	6.27	6.0	8.50	-4.0
September	8.53		6.53		6.12		6.32		8.50	
October	8.55		6.71		6.15		6.30		8.50	
November	8.67	9.5	6.68	16.4	6.28	10.7	6.33	5.9	8.50	0.0
December	8.75		6.78		6.34		6.42		8.50	
Chng Dec(91)/Dec(90)		-3.5		-4.2		-18.0		-17.5		-14.8
Chng Dec(90)/Dec(89)		2.4		1.4		-6.8		-6.5		-5.0

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ARX is the annualized percentage change from the previous quarter.

U1890-3

ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
January 1991

Dr. Donald Ratajczak, Director
For Release: Monday, February 4, 1991

WAR AND RECESSION!!

Anyone who thought that the beginning of war would end recession certainly thought differently after the January **EMPLOYMENT SITUATION** was announced. Almost everything in that report indicated that the free-fall in economic activity that began in October remained intact except for the December pause from the decline. The workweek fell by half an hour; hourly earnings were down, although composition shifts in employment probably accounted for most of that change; payrolls collapsed by 232,000 jobs and this was after an 85,000 job rebound in retailing because those not hired for Christmas were not fired afterwards. The bulk of the weakness was in construction, which might have faced some weather disruptions, and in manufacturing. However, declines also occurred in communications, finance, wholesale trade, real estate, business services and state and local payrolls. The diffusion index improved slightly to 45% from 41%, but remained entrenched in the recession area.

Thus, all the euphoria building when personal income, consumption, durable goods orders and leading indicators all were better than expected for December was dashed by the magnitude of the January weakness. Even if weather accounted from some of the shortened workweek, the index of hours worked in the first quarter probably will fall as much as in the fourth. Moreover, the measurement errors that probably overstated GNP and led to measured productivity gains of nearly 2% for the fourth quarter beginning of recession (an amazing result), may be reversed in the winter. Therefore, GNP probably will fall by more in the first quarter than in the fourth. Certainly, the Federal Reserve reached the same conclusions when they saw the report and decided to reduce the discount rate and lower the federal funds rate by a half point.

Prior to that report, the GNP release suggested that the recession was rapidly burning itself out. Most of the weakness during the fall was in consumer purchases of autos and reduced production for inventory. Because of surge in export activity, final sales were basically unchanged during the quarter. One could readily conclude that the slump in consumer durables soon would run its course (replacement needs currently exceed the sale of

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vehicles). Because inventories are being managed well, no second stage of production cutbacks to clear the warehouse of excess inventories was necessary. The only apparent stumbling blocks to a quick recovery were a reversal of current strength in international markets and a free-fall in construction. Construction is not healthy but housing activity already is below a million units, or more than 400,000 less than net household formations. Office vacancies remain intense but construction is slowing sharply. Retail space is excessive, but no one is adding to the glut. In other words, a construction collapse would require a rapid adjustment to remove excesses because no new excesses are developing.

Of course, the continuing shift in credit quality required by banks could generate that construction free-fall that normally could be ruled out. Commercial and industrial loans are well below previous year levels, and much of the restraint is in construction. Despite massive growth in the monetary base during the past three months, money growth has been nil. Part of this surprising result is the continued surge in currency demand, apparently to provide liquidity in other countries. However, weak loan activity also contributes to such sluggish growth. Indeed, as banks are writing off previous loans, their capital base is eroding. Therefore, their capacity to support prevailing portfolios is diminishing. Indeed, our construction expenditures for the first quarter show even a larger rate of decline after price adjustment than during the fourth quarter. Moreover, expenditures were revised downward sharply for November, suggesting that the GNP construction estimates are too high. Thus, some problems certainly remain in the construction industry.

Little difficulty seems to exist in the export markets, except to the extent that the world economy is slowing. The spending stimulus of German reunification continues to generate Europe, but growth is slowing sharply for the English and the Mediterranean countries. Asian markets also are growing more slowly. Part of this is caused by attempts in Japan to slow their economy. They apparently will slow it to less than three percent. Another part is the slowing of the major market for many of those countries, the United States. Thus, world growth probably will slow to less than 2% in 1991, considerably less than the more than 3% recorded in 1990. Certainly, exports will not continue to add $11 billion to GNP each quarter.

However, the collapse of imports appears to be overdone. To be sure, if inventory holdings are falling, as the GNP report suggests, some of those goods would be from foreign producers. But imports fell $12 billion after adjustment for price changes, and the price changes were a dramatic 28% increase. Oil was the culprit, but the convention of using only domestic prices to deflate investment goods in the U.S. accounts may lead to a greater reduction in imports (an offset to GNP) than in the sectors where those imports reside e.g. inventories, capital goods, etc. The surprisingly low fixed weighted GNP deflator suggests that just such a distortion probably occurred. Certainly, rising oil prices (half of which is produced domestically) led to higher inflation. The economy had not slowed fast enough or deep enough for enough other price concessions to offset the oil price surge. Yet, that is exactly what the GNP report indicated. Now that oil prices are falling, the bias in this deflation process should be reversed, leading to higher deflators than actual inflation.

A measurement problem would not be enough for the Federal Reserve to react so dramatically to renewed signs that the recession was intensifying. What they are concerned about is that enough people will lose their jobs so that personal income actually falls. Then, improving consumer confidence will not be enough to reverse the downward direction, because not enough purchasing power would be in people's pockets (a Keynesian response to initial weakness). With falling employment, workweek, and hourly earnings, personal income almost certainly fell significantly in January. Also, if economic activity falls enough, so much unutilized capacity will exist to lead to cancellation of orders for new equipment. As a result, the relatively robust orders books for manufactured goods could vanish almost immediately. These multiplier and accelerator responses to initial weakness could lead to a substantially weaker and deeper recession that otherwise would occur. Therefore, the Federal Reserve is correct in reacting quickly to signs that the economy is still eroding rapidly.

Also, a war in the middle east could have serious consequences upon economic activity here. In addition to how the war may impact economic activity abroad (e.g. the Japanese are thinking about raising taxes in order to provide for their additional pledge of $9 billion to the effort), three other factors appear to be important.

1). The war costs lots of money. Every day of hostilities costs more than $500 million. Full scale hostilities with substantial equipment damage could triple the daily costs. Offsetting some of these costs are contributions from our Allies. They already have pledged $45 billion, although substantially less than that has been received. Also, some of the ordnance and equipment would have been surpluses as the European risk diminishes. Therefore, replacement costs are not as staggering as the book value of the equipment being used up. Although deficit estimates are difficult to determine because of the uncertainties involved, a long war probably would not generate substantially more contributions and would require replacement of equipment. A short war could have minimal impact upon government deficits.

To the extent that the war will raise deficits, the fear of financing probably will increase interest rates before and slow the economy before the additional replacement spending begins to create jobs. Thus, some extension of the recession is likely, although the war probably will be stimulating the economy by the end of this year.

2). Wartime uncertainties have slowed spending by consumers and investors. Also, reservists face prospects of being called up. Normally, consumer confidence can be estimated by changing employment, interest rates, and inflation. However, the drop in confidence since August was far greater than those variables would generate. Reality appears to be less frightening than possibility. Iraq's offensive capability is limited. Although its army certainly may force many casualties, an allied victory in a short enough time to preclude any slackened support for the war is increasingly likely. Therefore, consumer confidence actually may improve modestly as the war continues.

3). About 20% of the world's oil production is in the war zone. Higher insurance rates have disrupted tanker movement into the area. However, enough oil exists to insure adequate supplies for the remainder of the heating season. Then, world demand falls by more than 3 million barrels a day. Although some war premium remains justified for oil, the size of that premium should fall dramatically now that the risk of attacking Saudi refineries and oil fields is remote. This is one area where the fear of war has been more debilitating than the conflict itself.

Although all the above wartime issues remain uncertain, the financial burdens of war in the United States may be far less than originally expected. After receiving allied pledges and using equipment that otherwise would have been surpluses, deficit increases may be as little as $20-$30 billion. Moreover, the pledges and deficit financing will purchase more than $60 billion of equipment. Thus, the spending and financing part of this war may be less significant than originally expected.

Clearly, the consumer confidence impact currently is favorable. A long war with many casualties could change this, but the worst of the dip in confidence may already have occurred.

Certainly, oil prices will fall into the teens by spring. This will restore virtually all the purchasing power that the fear of war had exhausted. Even our trade deficits should narrow sharply later this year, leading to some stability for the dollar.

Thus, hostilities will not have the adverse impact that fear of hostilities created. On the other hand, any recession blunting expenditures will not surface until after the recession is over. And the recession remains. Federal Reserve action and the more favorable conditions from the conflict should end the recession before employment declines substantially more and orders begin to dry up. Thus, the recession should remain modest, but a long war clearly would change that assessment.

nthly Statistical Highlights

	JANUARY 1991	FEBRUARY 1991	MARCH 1991
yroll Employment		36,000	32,000
dex of Hours Worked		0.7%	0.0%
usehold Employment		52,000	30,000
ivilian Unemployment Rate		6.4%	6.5%
rsonal Income	-0.4%	0.3%	0.3%
vings Rate	3.9%	3.9%	3.7%
rsonal Consumption	-0.1%	0.3%	0.5%
tail Sales	-0.5%	0.1%	0.5%
to Sales	8.6*	8.6*	9.0*
using Starts	-2.5%	-0.3%	2.1%
using Permits	-0.6%	-0.6%	1.3%
onstruction Expenditures	-1.5%	-0.6%	-0.2%
usiness Inventories	0.2%	0.2%	0.2%
rders for Durable Goods	-0.7%	-0.2%	1.6%
rders - Nondefense Capital Goods	-7.3%	-2.8%	5.8%
ndustrial Production	-0.7%	-0.2%	-0.1%
PI	0.3%	0.1%	0.0%
PI	0.0%	-0.3%	-0.5%
onsumption Deflator	0.4%	0.1%	0.0%
eading Indicators	-0.9%	0.3%	-0.3%
urrency Index	-1.9%	0.8%	-1.9%
quity Index	-1.4%	6.1%	2.7%
eal GNP (annual rate)	-11.0%	0.0%	-2.0%
1 (annual rate)	-2.0%	3.3%	3.1%
2 (annual rate)	-1.2%	2.7%	3.0%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Almost everything was negative about the **EMPLOYMENT SITUATION** for January. The 155,000 drop in construction employment was weather impacted, but a sharp drop certainly would have happened anyway. Durable manufacturing showed substantial weakness in a 69,000 dip in manufacturing. The auto sector returned to its November level after December, when seasonal shutdowns actually led to higher seasonally adjusted employment than actually occurred. Just as the December stability in manufacturing employment did not reflect improving production, the plunge in auto employment does not mean substantial weakness. Also, weather probably shortened the workweek. Nevertheless, a half hour decline in the workweek virtually assures substantial weakness in production and personal income for January.

Even with an anticipated rebound in hours next month, the index of hours worked will fall another 4% this quarter. Productivity is not going to rebound strongly for two consecutive quarters while production is falling sharply. Therefore, a greater drop in GNP is likely in the winter than during the fall. The diffusion index was the only positive development, with only 45% of firms reporting additions to their workforce. This is up from 41% last month, but remains firmly at recessionary levels.

The seasonal problems with retail employment were apparent, as that sector exhibited an 85,000 job gain. This develops because those not hired temporarily are not fired after Christmas. As the seasonal factors expect a Christmas surge and then a post-holiday slump, employment was reduced by the seasonals during the season and will now rise seasonally in January and February. Indeed, that seasonal factor, a rebound from weather impacted construction, and some rebound in the surprisingly depressed government sector should generate some growth in employment for February.

The drop in hourly earnings reflects the shift in employment compensation (relatively more retail clerks and fewer construction workers). When the composition shifts stabilize, hourly wages will be about half a percent less robust than last year.

Household and payroll estimates of employment declines are similar since the recession began (a probable June peak). We have included percentage changes in labor force below the unemployment estimates to show how slowly the labor force has grown in the past and is projected to grow in the future. Population is growing about 1%, so the 0.7% growth in labor availability reflects some reduction in the desire to work, either because they are discouraged or because alternatives to the labor market exist.

PERSONAL INCOME AND OUTLAYS-$27 billion of the $33 billion gain in personal income during December was in wages and salaries. Little change occurred in farm income while property income slowed its growth slightly. A longer workweek and higher earnings accounted for this gain. In January, wages and salaries will fall sharply. Also, the Department of Commerce amortizes social security taxes to the beginning of the year, not when they are paid. Therefore, the additional medicare tax will cause a substantial increase in social security payments in the GNP accounts even if no changes are likely in spending capability until late in the year. When these factors are combined, personal income will fall sharply in January.

Partially offsetting this will be moderation in tax liabilities to reflect the impact of indexation on tax payments. Also, as inflation eases, especially for nondurable goods, outlays will need to grow less to preserve current purchasing power. Even so, auto sales should remain sluggish. Some improvement is likely at the end of January, but consumers are not yet willing to cast their cautions away. Falling housing sales will caused reduced purchases of consumer durables. Therefore, durable purchases should again be falling in the winter.

However, more normal weather will lead to some growth in services expenditures. Also, the sluggish dollar sales for nondurables reflects sharp reductions in inflationary pressures. At this point, the slump in consumer spending during the fall should not persist. But the savings rate is low (3.9%) and uncertainties are great. Therefore, more sluggish consumption than reflected here is more likely than a spending surge.

CONSTRUCTION-The slump in construction shows no end. Single family housing sales reached the lowest level since 1982 during December at less than 450,000 homes. Inventories of unsold homes are controlled, rising only to 8.4 months; but that is a level that precludes financing for homebuilders. Sales in the west may be stabilizing, but the midwest is beginning to weaken. Permits suggest that further declines in both single and multiple units are likely into the spring. Obviously, this slump in housing starts is being reflected in residential expenditures. Although the rebound in housing starts during the spring appears robust, the level of activity is so low that only minor gains lead to large percentage changes. Also, financing may be even more significant in stimulating apartment units than in generating single family activity.

The collapse in non-residential expenditures during the fall also may reflect tightening credit conditions. At this time, a resolution of these financing issues is assumed. Certainly, this is one area that requires close attention to see if the spring rebound can materialize. The surge in public construction clearly is unsustainable and probably reflects project timing. Modest gains are expected there following a substantial slump during the winter months.

Construction prices have reflected composition changes more than actual shifts in inflationary pressures. Those composition issues should persist, although further actual declines in construction costs are not anticipated.

BUSINESS ACTIVITY-The December surge in **orders for durable goods** must be put in perspective. Orders fell during the fall, and they are projected to fall in the winter. The rebound in military orders was from a level well below shipments. Some further rebound is expected because of the Persian Gulf. However, military shipments are not expected to be substantial. The surge in orders is largely confined to transportation equipment. Moreover, those orders should slow with the current financial strains in the airline industry worldwide. Only minor changes are expected in shipments.

Although business inventories increased in the fall, prices were responsible for the change. In the winter, prices will be moderating. Indeed, these estimates may be too strong. They feed into the GNP estimates, which suggest at least one area where our estimates could be overstated.

The collapse in industrial production also reflects a strong drop in GNP than measured by Commerce. Our analysis suggests that a further strong drop is likely during the winter. Falling auto assemblies, declining production of industrial materials, and reductions in business equipment account for this weakness. Of course, the large drop in **capacity utilization** provides another worry. Below 78%, order cancellations begin to become significant. As a result, capital spending could fall sharply. Our current **PROJECTIONS** show a decline to 78% but not below.

PRICES-Even with our adjustment for composition changes, we could not generate a 2.8% deflator. Our fixed weighted deflator also could not fall to 4.2%, or the same rate of inflation as in the previous two quarters. We are assuming that the distortions will be reversed during the next two quarters. Thus, the deflators are higher than they would be because of price pressures alone.

Our estimates show smaller price declines for consumer nondurables (including energy) than may develop. However, higher food prices because of the California freeze accounts for some of the discrepancy. Offsetting this, however, is a sharper improvement in service inflation than may materialize. These gains are based upon a slowing in housing costs. Except for December, no such slowing was apparent. Thus, our price estimates appear to be showing potential offsetting errors in various components that should lead to reasonable anticipations of actual conditions.

MISCELLANEOUS-Enough has been said about the GNP estimates except to say that the revised construction figures no longer generates the 2.1% decline for the fourth quarter. Any other revisions almost certainly will require further weakness. As it is, the GNP estimates do not appear to be consistent with industrial production performance. Of course, the service economy, which is expanding slowly, is not captured by industrial production, but an 8% dip in industrial activity probably should relate to a 3-3.5% dip in economic activity unless unusual strength exists in the service economy.

Inventory profits should vanish early this year. Therefore, the apparent slump in adjusted profits should come to an end. Interest rates and currency fluctuations also impact stock values. However, the 14.5% reduction in equity values from their July high to their October low corresponds closely with the estimated 13.7% drop in adjusted profits during that time. Therefore, even as reported profits weaken considerably, equity values could rise because the inventory profits, and therefore the tax liability, are falling sharply.

The uptick in **leading indicators** for December almost certainly will not be sustained. Therefore, some weakness into the second quarter seems likely according to this index. (The decline in the workweek alone will drop the indicators by 0.4% in January.

As oil prices decline, our trade balances should improve sharply. The non-oil deficit of the United States has improved by $25 billion to less than $45 billion in 1990. Under current exchange conditions and with the aid of sluggish local demand, that deficit should fall a further $20 billion in 1991. If our oil deficit falls to $50 billion, as expected, a substantial improvement in our trade deficit is likely. Initially, the dollar may not respond to these gains, as investors will look at the interest rate differentials, which are widening in Europe. However, the decline in trade deficits will persist at current exchange rates, leading to the potential for dollar scarcity in a few years. This should entice international investors to begin purchasing dollars during the second half of this year. The yen may never fall significantly below 130 and should exceed 140 by the end of the year. The mark easily could rise to 1.35 but then should begin moving back toward 1.40 before the end of the year.

FINANCIAL MARKETS

The world waited in January and economic activity fell. Corporations are handling their inventories remarkably well, although some unintended inventories have surfaced, especially at the retail level. This has created some corporate borrowing needs, especially as profits are falling sharply. However, the profit picture should stabilize in the spring and could improve in the summer. Capital spending now is being curtailed. As a result, corporations are beginning to reduce their borrowing needs as inventory prices fall. They should remain subdued in their borrowing throughout the year, but some increased borrowing is likely during the fall.

International investors have been enticed into European currencies because of the borrowing activity there. The Bundesbank continues to offset the inflationary forces from reunification spending. This has caused the dollar to weaken and the investors to look elsewhere. As a result, interest rates in the United States are surprisingly low relative to Eurodollar rates. Foreign pressures clearly are trying to push domestic rates upward, but the Federal Reserve is willing to accept currency fluctuations to absorb these pressures. (Of course, such fluctuations raise inflationary fears the lead to higher long-term rates than otherwise would prevail. Therefore, the yield curve steepens significantly.) Trade balances may be more important than interest rate differentials late this year, for the mark certainly will become overvalued and even the Asian currencies will be expensive. Therefore, the foreign investors will add to interest rate pressures early but may try to relieve them through increased capital flows later.

Consumers are not expected to change their savings substantially this year. Housing will continue to slide into the spring, but then should expand in the summer. Therefore, the household sector will permit a downward drift in interest rates until summer, but then will exert upward pressure on rates.

Of course, the war matters for any government evaluation. Substantial spending to replace damaged equipment will exert substantial upward pressures on interest rates. A short war with the current pledges being met by our allies will add little to the deficit. The deficit is huge (more than $320 billion excluding social security surpluses) but it will not be growing. Therefore, its impact already should be reflected in the markets.

All the above suggests that interest rates could fall sharply through the spring (even more sharply than currently projected) and then should stabilize in the summer. Rising rates are possible in the fall but are more likely next year.

EQUITY MARKETS-Equity markets are not dramatically overvalued, as mentioned above. Some excesses in the high capitalization stocks may have developed as issues were bought or sold on war news rather than earning potential. However, our model shows dramatic gains during the spring before the market turns sideways late in the year. Underneath that change should be a rotation toward lower capitalized stocks and away from the blue chips. Therefore, the Dow should underperform the market during the latter part of the year. Although total gains are expected to be slightly more than 6% excluding dividends, the lower capitalized stocks should do twice that.

Early in the year interest sensitive sectors, such as home building, utilities, and regional financial institutions look favorable. Capital equipment could be underweighted this year before adding them aggressively next year. Similarly, most industrial materials, such as metals, chemicals, paper and plastics could be postponed until later. However, falling oil prices could make some chemicals attractive. Europe's economy is slowing. Therefore, the multinationals could be a source for raising funds. Some of the technology stocks should do well.

Despite the uncertainties created by recession and the war, cash should be put to use. Even some of the remaining airlines, the drugs, and some consumer related activities, such as shopping and dining, should be accumulated. Until interest rates begin rising, and they are still falling significantly, equity investments should provide strong earnings potential of the next year.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
July 1990	110740		124.8		117882		5.5	10.07	
August	110613	0.5	124.6	0.6	117690	-1.3	5.6	10.09	4.3
September	110612		125.3		117883		5.7	10.13	
October	110432		123.1		117733		5.7	10.12	
November	110165	-1.6	123.4	-4.4	117386	-0.9	5.9	10.14	2.1
December	110017		124.0		117574		6.1	10.19	
January 1991	109785		121.7		116922		6.2	10.18	
February	109821 *	-1.4	122.5 *	-4.0	116974 *	-2.0	6.4 *	10.22 *	2.7
March	109853		122.5		117004		6.5	10.25	
April	109776		122.1		116976		6.7	10.27	
May	109832	0.0	122.2	-0.2	117012	0.1	6.8	10.30	3.2
June	109853		122.2		117043		6.8	10.32	
July	109896		122.3		117096		6.9	10.36	
August	109914	0.3	122.4	0.8	117108	0.4	7.0	10.38	3.4
September	109937		122.5		117156		7.0	10.41	
October	109968		122.7		117224		6.9	10.44	
November	109998	0.4	122.8	1.4	117221	0.5	7.0	10.47	3.5
December	110143		123.0		117331		6.9	10.51	
Chng Dec(91)/Dec(90)		0.1		-0.8		-0.2	0.7 #		3.1
Chng Dec(90)/Dec(89)		0.6		0.6		-0.3	0.6 #		3.7

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	4.663		2.727		184.2		3.958		3.774	
August	4.675	5.0	2.728	5.7	165.0	-46.9	3.966	4.5	3.801	8.4
September	4.698		2.747		150.2		3.983		3.833	
October	4.696		2.732		155.9		3.982		3.826	
November	4.714	3.5	2.729	0.7	166.5	-6.9	3.998	3.3	3.831	3.7
December	4.747		2.756		168.1		4.024		3.856	
January 1991	4.730 *		2.739 *		156.4 *		4.008 *		3.851 *	
February	4.742	2.0	2.744	1.0	157.7	-19.8	4.021	2.0	3.864	3.0
March	4.757		2.754		150.1		4.034		3.883	
April	4.775		2.765		150.0		4.049		3.899	
May	4.793	4.4	2.777	4.6	157.1	2.0	4.063	4.4	3.906	4.5
June	4.815		2.788		159.4		4.083		3.923	
July	4.832		2.798		154.4		4.096		3.942	
August	4.855	5.3	2.810	4.9	155.4	5.0	4.116	5.3	3.960	5.3
September	4.883		2.822		162.4		4.141		3.978	
October	4.904		2.838		159.6		4.158		3.999	
November	4.920	5.7	2.848	5.7	153.1	-0.3	4.171	5.7	4.018	5.9
December	4.949		2.862		159.2		4.195		4.036	
Chng Dec(91)/Dec(90)		4.3		3.8		-5.3		4.2		4.7
Chng Dec(90)/Dec(89)		5.6		5.1		-1.4		5.2		5.5

PROJ includes current information until the * and then projections by month thereafter
ARX is the annualized percentage change from the previous quarter.
# is the percentage change in the labor force

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	3664.7		482.9		1192.0		1989.8		2695.0	
August	3692.1	8.0	475.9	3.3	1208.1	9.1	2008.2	8.6	2696.5	2.7
September	3723.4		488.2		1214.8		2020.5		2698.8	
October	3716.7		473.3		1216.2		2027.2		2673.6	
November	3721.5	3.8	471.1	-7.2	1219.5	4.5	2030.9	6.1	2670.0	-3.1
December	3746.0		475.9		1219.3		2050.8		2683.8	
January 1991	3741.4 *		466.4 *		1217.8 *		2057.3 *		2669.7 *	
February	3753.9	3.1	466.4	-4.1	1219.4	0.3	2068.2	6.5	2676.4	0.4
March	3773.4		472.8		1220.2		2080.4		2688.6	
April	3788.4		475.8		1221.0		2091.6		2694.5	
May	3795.8	4.6	471.8	4.5	1220.6	0.8	2103.4	6.9	2692.0	2.4
June	3812.6		473.6		1223.3		2115.7		2695.8	
July	3831.4		476.3		1227.5		2127.6		2701.6	
August	3849.7	5.4	477.1	2.8	1233.1	3.8	2139.5	7.0	2707.6	1.9
September	3867.4		477.6		1238.4		2151.4		2711.5	
October	3887.4		480.1		1243.8		2163.6		2717.7	
November	3906.1	6.0	482.5	5.1	1248.5	4.9	2175.2	6.8	2722.6	2.4
December	3924.4		486.4		1251.1		2186.9		2727.9	
Chng Dec(91)/Dec(90)		4.8		2.2		2.6		6.6		1.6
Chng Dec(90)/Dec(89)		5.4		-0.3		5.4		6.9		-0.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	150.20		22.77		9.7		96.00		31.43	
August	150.24	6.4	22.67	-0.3	9.4	7.2	97.18	10.2	30.40	1.2
September	151.56		22.56		10.1		97.79		31.21	
October	151.75		22.57		9.3		97.69		31.49	
November	151.63	2.2	22.29	-5.0	8.7	-28.0	98.16	4.1	31.18	1.6
December	151.06		22.28		8.9		98.03		30.75	
January 1991	150.29 *		22.17 *		8.6 *		97.89 *		30.23 *	
February	150.42	-2.2	22.06	-4.4	8.6	-10.0	98.02	0.2	30.34	-7.9
March	151.21		22.16		9.0		98.09		30.96	
April	151.61		22.31		9.1		98.15		31.15	
May	151.13	2.1	22.25	2.7	8.8	9.5	98.12	0.8	30.76	5.8
June	151.55		22.28		8.9		98.34		30.93	
July	152.19		22.37		9.0		98.67		31.15	
August	152.73	3.4	22.43	2.2	9.1	7.7	99.12	3.8	31.18	3.3
September	153.21		22.40		9.2		99.55		31.26	
October	153.92		22.47		9.0		99.98		31.47	
November	154.57	5.0	22.53	2.3	9.1	1.5	100.36	4.9	31.68	7.2
December	155.22		22.58		9.3		100.57		32.07	
Chng Dec(91)/Dec(90)		2.8		1.3		4.5		2.6		4.3
Chng Dec(90)/Dec(89)		3.6		0.5		0.0		5.3		0.6

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	1.153		0.875		0.278		1.082	
August	1.131	-22.3	0.836	-15.9	0.295	-38.8	1.050	-17.8
September	1.106		0.859		0.247		0.992	
October	1.026		0.839		0.187		0.920	
November	1.127	-26.4	0.768	-28.7	0.359	-19.0	0.906	-46.5
December	0.987		0.755		0.232		0.846	
January 1991	0.962 *		0.736 *		0.226 *		0.841 *	
February	0.959	-27.2	0.742	-18.4	0.217	-49.8	0.836	-20.4
March	0.979		0.767		0.212		0.847	
April	1.005		0.784		0.221		0.891	
May	1.025	22.8	0.789	23.4	0.236	21.0	0.903	31.1
June	1.023		0.793		0.230		0.907	
July	1.048		0.805		0.243		0.915	
August	1.062	20.5	0.822	18.8	0.240	26.8	0.931	13.7
September	1.089		0.843		0.246		0.943	
October	1.082		0.827		0.255		0.926	
November	1.106	16.4	0.842	10.6	0.264	37.9	0.934	9.7
December	1.135		0.864		0.271		0.994	
Chng Dec(91)/Dec(90)		15.0		14.4		16.8		17.5
Chng Dec(90)/Dec(89)		-22.5		-18.9		-32.2		-40.3

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	144.7		108.1		188.5		441.3		399.3	
August	139.1	6.0	112.8	7.5	184.4	-10.1	436.3	-7.5	398.4	-8.9
September	137.8		106.4		179.7		423.9		388.8	
October	134.6		111.9		176.8		423.3		394.0	
November	131.7	-19.9	113.9	17.8	171.5	-24.1	417.1	-13.4	376.4	-12.9
December	132.5		115.2		167.5		415.2		375.7	
January 199	130.4 *		114.0 *		164.6 *		409.0 *		370.1 *	
February	130.3	-6.8	113.6	0.9	162.5	-20.3	406.4	-10.6	366.5	-14.7
March	131.1		114.2		160.3		405.6		365.1	
April	130.8		114.9		160.9		406.6		365.3	
May	131.3	0.8	115.6	6.0	162.7	0.2	409.6	2.0	367.4	-0.6
June	130.5		116.3		164.0		410.8		367.4	
July	130.2		116.9		165.8		412.9		368.3	
August	130.6	-0.4	117.4	6.4	167.2	12.3	415.2	6.5	369.4	3.4
September	131.4		117.9		169.0		418.3		371.5	
October	132.2		118.5		170.4		421.1		373.3	
November	132.0	5.1	119.2	6.2	172.3	12.8	423.5	8.4	374.4	5.7
December	132.9		119.8		174.6		427.3		376.8	
Chng Dec(91)/Dec(90)		0.3		4.0		4.2		2.9		0.3
Chng Dec(90)/Dec(89)		-2.1		7.7		-11.7		-3.9		-5.4

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AR% is the annualized percentage change from the previous quarter.

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	373.3		128.09		39.84		35.10	
August	374.3	3.2	126.98	3.2	35.87	20.9	36.72	4.6
September	377.0		124.94		38.26		36.60	
October	377.5		129.46		41.63		36.57	
November	378.2	3.7	116.43	-12.6	35.81	20.1	35.96	-0.3
December	379.2 *		121.56		41.87		35.81	
January 1991	380.1		120.67 *		38.83 *		36.56 *	
February	380.8	2.7	120.45	-4.2	37.76	-9.0	36.21	2.4
March	381.7		122.38		39.94		36.21	
April	382.3		121.97		38.85		36.24	
May	384.0	3.2	121.53	0.5	38.21	-7.5	36.63	0.6
June	385.3		120.46		37.23		36.27	
July	386.2		120.98		37.46		36.53	
August	387.5	3.9	121.35	-0.8	37.18	-9.2	36.68	0.9
September	388.9		120.92		36.92		36.18	
October	390.0		120.85		36.21		36.24	
November	391.7	4.3	120.96	1.2	36.53	-3.3	36.36	-0.7
December	393.2		122.53		37.89		36.59	
Chng Dec(91)/Dec(90)		3.7		0.8		-9.5		2.2
Chng Dec(90)/Dec(89)		2.2		-7.7		-5.7		2.4

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	802.2		8.95		110.4		83.8	
August	807.5	4.8	9.11	-3.2	110.5	3.7	83.6	1.1
September	810.8		8.91		110.6		83.5	
October	814.3		8.77		109.8		82.7	
November	816.4	5.0	9.23	4.2	107.8	-8.0	81.0	-10.4
December	819.6 *		9.25		107.1		80.4	
January 1991	821.0		9.06 *		106.3 *		79.6 *	
February	822.4	2.9	9.27	6.0	106.1	-7.5	79.2	-10.1
March	824.2		9.32		106.0		78.9	
April	825.7		9.26		105.7		78.5	
May	828.2	2.8	9.18	-2.4	105.5	-1.9	78.2	-4.6
June	830.7		9.04		105.7		78.2	
July	833.4		9.06		105.9		78.2	
August	836.2	4.0	9.01	-6.1	106.1	1.8	78.1	-0.8
September	839.5		8.98		106.3		78.1	
October	842.2		8.95		106.5		78.0	
November	845.5	4.4	8.99	-0.7	106.7	2.4	78.1	-0.2
December	848.7		9.06		107.0		78.2	
Chng Dec(91)/Dec(90)		3.6		-2.1		-0.1		-2.7
Chng Dec(90)/Dec(89)		3.0		-5.6		-1.4		-3.9

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AR% is the annualized percentage change from the previous quarter.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	130.5		117.5		113.4		131.5	
August	131.5	6.4	119.0	5.9	115.9	9.3	132.0	3.7
September	132.5		120.9		118.3		132.7	
October	133.3		122.2		121.3		132.8	
November	133.7	6.9	122.8	11.3	120.6	16.1	133.2	2.8
December	134.1		122.1		118.9		132.9	
January 1991	134.5 *		122.2 *		118.6 *		133.8	
February	134.6	2.6	121.8	-2.0	117.0	-10.0	134.5	4.5
March	134.6		121.2		115.8		135.1	
April	134.8		121.1		115.5		135.4	
May	135.2	1.9	121.3	-1.6	115.7	-4.7	135.8	4.1
June	135.6		121.5		116.0		136.2	
July	136.0		121.7		116.2		136.6	
August	136.3	3.4	121.9	2.1	116.5	0.6	137.1	3.8
September	136.7		122.1		115.0		137.5	
October	137.1		122.4		116.6		137.9	
November	137.6	3.6	122.6	2.4	117.0	4.0	138.5	4.0
December	137.9		122.9		117.5		138.9	
Chng Dec(91)/Dec(90)		2.9		0.6		-1.2		4.5
Chng Dec(90)/Dec(89)		6.1		5.6		5.9		4.5

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	136.0		112.2		130.0		147.6		110.8	
August	136.9	5.2	112.2	0.7	131.2	6.6	148.6	5.4	111.2	4.4
September	138.0		112.5		133.3		149.3		110.9	
October	139.0		112.8		134.6		150.1		110.8	
November	139.4	7.1	112.7	1.6	135.0	11.0	150.6	5.5	110.8	-1.0
December	139.6		112.7		135.3		150.8		110.5	
January 1991	140.1 *		112.9 *		135.5 *		151.5 *		110.5 *	
February	140.3	2.7	113.0	1.1	134.9	-0.2	152.1	4.3	110.9	0.5
March	140.3		113.2		134.3		152.7		111.1	
April	140.6		113.4		134.1		153.3		111.3	
May	141.0	2.2	113.5	1.7	134.2	-1.9	153.9	4.8	111.5	2.6
June	141.4		113.6		134.5		154.5		111.8	
July	141.8		113.8		134.7		155.1		112.1	
August	142.2	3.4	114.0	1.8	134.9	2.0	155.6	4.6	112.4	3.0
September	142.6		114.2		135.2		156.2		112.6	
October	143.0		114.5		135.4		156.8		112.8	
November	143.5	3.6	114.7	2.6	135.7	2.3	157.4	4.5	113.1	2.6
December	143.9		115.0		136.0		157.9		113.4	
Chng Dec(91)/Dec(90)		3.1		2.0		0.5		4.7		2.6
Chng Dec(91)/Dec(90)		5.6		1.0		8.5		4.9		1.6

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
July 1990	-9.12		146.2		5489		4174		-7.8
August	-9.73	-81.4	144.5	-3.0	5518	5.3	4181	1.4	-28.6
September	-9.33		143.5		5539		4173		-33.3
October	-10.99		141.6		5525		4159		-31.4
November	-9.70 *	-44.6	140.0	-11.0	5509	0.3	4135	-2.4	-19.6
December	-10.21		140.1		5523		4156		-14.7
January 1991	-9.46		138.9 *		5506		4116		-9.8
February	-8.53	47.8	139.3	-4.4	5534	0.8	4116	-3.5	-1.1
March	-8.27		138.8		5551		4109		-0.5
April	-7.53		139.2		5565		4109		-2.2
May	-6.94	51.2	139.8	2.4	5594	4.0	4120	-0.1	-3.7
June	-7.48		140.5		5595		4108		-4.8
July	-7.62		140.8		5625		4118		-4.9
August	-6.85	13.3	141.3	4.3	5662	5.1	4129	1.3	-5.6
September	-6.71		141.8		5677		4128		-7.3
October	-6.26		142.0		5704		4136		-9.2
November	-6.53	35.1	142.2	3.1	5734	5.3	4140	1.7	-11.6
December	-6.22		142.9		5766		4152		-11.1
Chng Dec(91)/Dec(90)		39.1		2.0		4.4		-0.1	
Chng Dec(90)/Dec(89)		-33.4		-3.6		5.0		0.3	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	89.68		164.0		8.50		196.61	
August	86.55	-2.0	160.7	-24.7	8.86	5.3	181.45	-14.5
September	86.10		160.1		9.03		173.22	
October	83.43		141.6		8.86		168.05	
November	82.12	-19.0	141.7	-41.3	8.50	-11.4	172.21	-21.1
December	83.35		141.2		8.24		179.26	
January 1991	81.76 *		140.7		8.15 *		176.83 *	
February	82.43	-6.1	143.1	3.1	7.86	-28.5	187.65	32.4
March	80.85		143.9		7.53		192.79	
April	80.21		145.1		7.47		194.07	
May	80.67	-5.7	144.6	5.3	7.52	-15.5	192.73	14.1
June	80.57		143.5		7.58		189.20	
July	81.27		143.6		7.65		188.79	
August	82.69	8.0	145.6	2.3	7.64	8.8	194.66	-0.9
September	82.18		146.5		7.76		191.23	
October	83.47		147.4		7.85		192.87	
November	82.89	7.1	146.6	4.9	7.91	11.8	188.62	-1.9
December	84.01		146.8		7.94		190.37	
Chng Dec(91)/Dec(90)		0.8		4.0		-3.6		6.2
Chng Dec(90)/Dec(89)		-12.2		-15.5		4.3		-7.0

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ARX is the annualized percentage change from the previous quarter.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	309.2		809.0		3287.8		8.15		7.52	
August	312.5	8.9	815.9	4.4	3305.4	3.2	8.13	-4.0	7.38	-16.3
September	316.8		822.2		3319.8		8.20		7.32	
October	317.9		820.1		3320.1		8.11		7.16	
November	319.5	8.2	822.6	3.5	3316.4	1.9	7.83	-18.6	7.05	-21.6
December	319.7		825.5		3323.3		7.31		6.70	
January 1991	328.1 *		824.1 *		3320.0 *		6.97 *		6.31 *	
February	333.2	17.9	826.3	1.7	3327.4	0.9	6.33	-52.3	5.96	-45.1
March	336.1		828.4		3335.6		6.02		5.73	
April	339.5		831.2		3347.1		5.78		5.62	
May	342.3	12.2	834.0	3.8	3360.3	4.1	5.76	-35.0	5.60	-22.8
June	344.8		836.9		3375.2		5.81		5.65	
July	346.5		839.7		3389.0		5.85		5.72	
August	348.1	7.0	842.6	4.1	3402.7	5.0	5.94	8.3	5.85	15.8
September	349.6		845.2		3414.7		5.91		5.93	
October	352.0		848.0		3429.4		5.97		5.98	
November	353.7	6.6	851.1	4.2	3444.5	5.2	6.05	8.1	6.05	13.7
December	355.2		854.7		3462.1		6.03		6.04	
Chng Dec(91)/Dec(90)		11.1		3.5		4.2		-17.5		-9.9
Chng Dec(90)/Dec(89)		8.2		3.9		3.2		-13.5		-9.7

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
July 1990	9.24		7.19		7.99		8.10		10.00	
August	9.41	0.3	7.32	-1.6	7.88	1.1	7.97	-13.2	10.00	0.0
September	9.56		7.43		7.96		8.06		10.00	
October	9.53		7.49		7.98		8.06		10.00	
November	9.31	-4.5	7.16	-3.6	7.85	-3.3	7.98	-4.4	10.00	0.0
December	9.05		7.09		7.80		7.82		10.00	
January 1991	9.04 *		7.11 *		7.26 *		7.38 *		9.50 *	
February	8.92	-14.5	6.97	-12.9	6.47	-50.7	6.82	-44.8	9.03	-29.1
March	8.86		6.92		6.07		6.37		9.00	
April	8.71		6.85		5.92		6.09		9.00	
May	8.59	-12.4	6.67	-15.2	5.84	-38.1	5.98	-41.1	8.62	-19.0
June	8.65		6.63		5.80		5.95		8.50	
July	8.68		6.65		5.91		5.99		8.50	
August	8.84	7.3	6.79	2.6	5.98	8.2	6.14	6.1	8.50	-6.0
September	8.89		6.84		6.02		6.16		8.72	
October	8.93		6.88		6.05		6.15		9.00	
November	8.98	8.1	6.92	9.6	6.13	11.2	6.22	8.8	9.00	21.4
December	9.02		6.95		6.21		6.31		9.00	
Chng Dec(91)/Dec(90)		-0.3		-2.0		-20.4		-19.3		-10.0
Chng Dec(90)/Dec(89)		2.1		1.6		-5.9		-6.0		-4.8

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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS

February 1991

Dr. Donald Ratajczak, Director
For Release: Thursday, March 6, 1991

VICTORY; BUT THE RECESSION CONTINUES

Victory in the Middle East certainly is clarifying some of the economic conditions. The war apparently will cost under $50 billion. If all allies meet their pledges, the claims on American taxpayers will be minimal. Furthermore, because the pledges will be transferred to Federal Reserve accounts and then disbursed, the dollar will receive some strength from the payment adjustment process. As far as the GNP accounts are concerned, defense spending will rise, especially in the nondurable category to account for ordnance, while foreign transfers will turn negative. The impact upon the government deficit will be minimal. However, the reduction in government transfers abroad substantially reduces the current account deficit in this and the next quarter, thus leading to a strengthening dollar.

Some defense spending is expected in the second and third quarter to replenish materials that were used in the war. However, the magnitude of the spending will not be sufficient to substantially stimulate economic activity.

The destruction of Kuwaiti oil fields has been more extensive than expected. Even those wells that were being pumped because they appeared to not have enough pressure to lift the oil are burning. Originally, about half the wells were expected to quickly burn themselves out as no oxygen exists under the ground. Because of the fires, about 6 million barrels a day of oil reserves are going up in smoke. The heat around the wells will prevent serious extinguishing for some time. Thus, several billion barrels of oil reserve may be destroyed before all fires are stemmed. This destruction has firmed oil prices. As a result, the decline in energy material prices in 1991 will not be as great as originally expected. Nevertheless, the flow of oil currently is adequate to meet world needs without any serious price increases. Although oil prices still may momentarily fall below $20 per barrel during the summer, a return to the OPEC level of $21 per barrel appears assured. However, little further oil price increase is likely in 1992.

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Another fallout from the war is the shift of Kuwait from a net supplier of funds to the world economy to a net borrower. This shift is probably as much as $60 billion per year for the next two years. Any reconstruction of Iraq also may require world funds, although Iraq's oil fields largely are intact and a diversion from defense to reconstruction could mean little net change upon world savings and spending from the Iraqi rebuilding. Of course, some shift in Saudi activity also is likely. Whether they add capacity to produce 10 million barrels of oil a day remains problematical, but some rebuilding is likely. Thus, the war probably causes a $100 billion shift in the world's net savings per year for the next two years. This is equivalent to the shift in net savings that accompanied the opening of Eastern Europe.

Because of the shift in world net savings, interest rates will remain higher than they otherwise would have been. We estimate about a quarter point higher real rates probably are required until the rebuilding is completed. Also, the loss of oil reserves may cause slightly higher inflation rates than previously expected. As a result, long term interest rates later this year may be as much as half a percentage point higher than previously expected.

However, the victory also means a shift in consumer sentiment. When we estimate sentiment by way of interest rate changes, inflation, and employment changes, the relationship normally is very strong. However, a large gap developed between he estimated and actual sentiment series beginning in August. This is ascribed to the uncertainties of war. Now that those uncertainties are largely dissipated, the gap should close. This does not mean that consumer activity will return to July levels, for a million jobs have been lost since then. Thus, sentiment should be lower, but not as low as it currently is. As sentiment improves, consumer spending should gradually rebound. However, little evidence of a surge in consumer activity is apparent in the late February auto sales.

The positive gains from improving consumer sentiment should overwhelm negative influences from reduced defense spending and higher interest rates as a result of the war. Therefore, an economic expansion should begin in the spring. Nevertheless, several factors that have also contributed to sluggish economic activity have not yet been resolved.

First, the construction overhang remains substantial. Production of all construction products now is less than absorption. This is especially true in apartments, where the 200,000 starts fall well short of the 400.000 additional absorptions. Vacancy rates in commercial, retail, and industrial space have stalled, but an economic rebound should intensify absorption, leading to improvements there once the economy recovers. Even so, the construction recovery will be agonizingly slow because the overhang of defaulted property held by the RTC will allow investors to purchase properties at 60 cents of the construction dollar in many cases. Until that overhang has been returned to private ownership, only a halting rebound in construction is likely.

Inventories of single family housing also are excessive for current sales levels. This continues to push housing values lower in many parts of the country. As a result, the only major equity of many households is no longer gaining value. Most of the problem is with sales, as builders are not receiving the financing to build speculative units. Apparently, the sluggish sales are the result of a sharp reduction in household formations in 1990. This shift in formations is not population induced (although trend household growth continues to decline and may be only slightly above 1.2 million at this time). Instead, adults have been combining together, especially adult males, instead of seeking single adult living quarters. Some of this shift could be sociological and might persist, but a substantial portion of these reduced households reflect reluctance to purchase homes while prices are falling. Once sales pick up, reducing inventories and firming prices, many of these adults will unbundle and return to the housing market. Even so, housing may not strongly lead the economic upturn, as it has done in the past.

Second, the credit crunch is still on. According to data from the St. Louis Federal Reserve, commercial and industrial loans in the latest four week period are 2.2% below the same four weeks a year ago. Loans are off even more in more recent periods. Normally, these loans track well with nominal GNP. Therefore, the banking community is lending at a rate that would cause a 4-5% decline in real economic activity. Fortunately, banks only account for 47% of lending activity, and cannot harm the economy as much as in the past when they refuse to lend. Regulatory authorities are trying to offset the crunch by redefining conditions for qualifying loans. Thus far, loan activity has not rebounded.

However, the Federal Reserve has been easing credit conditions in an effort to offset the crunch. Unfortunately, money growth is not substantial without the lending activity of banks to respond to the reserves supplied by the banks. In the past month money growth has picked up. The reduced interest rates certainly lowered financing charges for corporations, probably staying the hand of some from aggressive cost cutting. Also, some activity may soon be forthcoming in the traditional interest sensitive sectors of the economy as auto dealers use their reduced financing charges to buy customer incentives. More homeowners also should qualify for loans, leading to some gains in the housing market, as mentioned above.

Third, debt positions remain onerous. After averaging 140 percent of GNP in the 1950s through 1970s, debt has climbed to more than 185 percent in the mid-1980s. While debt has stabilized at that higher intensity in the past few years, the servicing problems associated with that debt in this first downturn since it was accumulated are substantial. Therefore, more spending restraints from illiquid households and receivable problems from businesses are likely than in previous downturns. Thus, a financial constraint will reduce the optimal allocation of resources. If the recession remains mild, as I expect, these financially constrained decisions will not be sufficient to substantially alter the pattern of economic development. However, a prolonged downturn could generate an added feature of substantial weakness from financial problems.

Partially offsetting the debt overhang and the decline in housing prices is the rebound in equity values. Two arguments have been advanced for this strong equity move. First, so much regulatory restraint has been preventing liquidity from flowing into hard assets that an unusual concentration has flowed into financial assets. Such a diversion is not so readily apparent in bonds, but such an argument would mean that stock values can be temporarily overvalued. These gains, in turn, would offset some of the debt burdens and lead to improved economic activity, thereby partially justifying the increased value. However, when the liquidity restraints are reduced, some relative correction in equity values would be expected.

Second, our victory has restored the economy to where it was before the invasion of Kuwait. Moreover, greater national pride and increased stature in the world may have some value, leading to increases in equity values. Therefore, stock prices at prewar levels should be restored. The problem with this argument is that the gains from the war are intangibles while the costs of the war in reduced employment from the plunge in consumer sentiment have not yet been reversed. While they should eventually be altered, the stock market may be nine months to a year ahead of the restoration of prewar conditions. (Of course, sluggish growth at best was expected before the war while economic expansion seems likely in the postwar environment).

Our model for the stock market suggests that most of the rally is justified by lower interest rates, a rebound in corporate profitability and some stability in the dollar. All the variables influencing stock market values are moving in the appropriate direction. Nevertheless, the magnitude of the gains, an annualized 44% gain in the first quarter, are excessive. Currently, the composite is at 205 while our model does not predict that value until early 1992. Therefore, we would expect a modest correction followed by consolidation until economic gains are more apparent later in the year.

Monthly Statistical Highlights

	FEBRUARY 1991	MARCH 1991	APRIL 1991
Payroll Employment	-32,000	-25,000	34,000
Index of Hours Worked	0.3%	-0.1%	0.0%
Household Employment	13,000	-33,000	122,000
Civilian Unemployment Rate	6.4%	6.5%	6.5%
Personal Income	0.4%	0.3%	0.5%
Savings Rate	4.3%	4.2%	4.3%
Personal Consumption	0.4%	0.4%	0.4%
Retail Sales	0.5%	0.3%	0.2%
Auto Sales	8.2*	8.4*	8.4*
Housing Starts	0.4%	1.6%	3.1%
Housing Permits	-1.5%	0.5%	2.3%
Construction Expenditures	-0.1%	0.1%	0.3%
Business Inventories	-0.2%	0.1%	0.3%
Orders for Durable Goods	1.3%	-0.7%	-1.5%
Orders - Nondefense Capital Goods	3.1	-1.6%	-2.9%
Industrial Production	-0.2%	0.2%	-0.3%
CPI	0.1%	0.1%	0.2%
PPI	-0.2%	-0.2%	0.1%
Consumption Deflator	0.1%	0.1%	0.2%
Leading Indicators	0.6%	0.4%	-0.2%
Currency Index	-0.5%	1.3%	-1.2%
Equity Index	10.1%	0.0%	0.7%
Real GNP (annual rate)	-0.3%	3.2%	-1.7%
M1 (annual rate)	11.4%	12.0%	5.4%
M2 (annual rate)	7.4%	6.3%	5.4%

* auto sales in millions

COMMENTARY

EMPLOYMENT-The initial unemployment claims for February 23 clearly indicate that the recession is not yet over. Despite a holiday shortened week, claims increased as much as at any time since 1983. the insured unemployment rate rose to 3.1%, or 1.3 percentage points higher than its cyclical low. The recession clearly was not over at the end of February.

PERSONAL INCOME AND OUTLAYS-Special effects were large but largely offsetting in January's drop in personal income. A shorter workweek, reduced employment, and lower hourly earnings combined to reduce wages by $20.7 billion. A 4.1% pay raise for government workers prevented wages from falling an additional $4.3 billion. A $16.7 billion increase in transfer payments was caused by a 5.4% cost of living adjustment for social security and other transfers. Offsetting these gains was a $16.3 billion decrease in proprietors' income from a sharp reduction in farm subsidies. Also, social security payments rose more than $7 billion because of changes in medicare payments, the wage base, and monthly medical premiums. Personal taxes fell because of an inflation adjustment to withholding.

After all the adjustments are considered, the wage component remained after all other forces canceled. Therefore, a substantial reduction in spending power ensued. This reduction in spending capacity was offset by actual spending reductions, leading to little change in the savings rate. More normal changes in personal income are likely next month, as wages and hours should rise and most of these other special events will be absent.

Outlays fell most sharply for durable goods, especially autos, but a sharp slowing in expenditures growth for services added to the weakness. Even with some rebound in activity expected for February and March, consumer spending during the first quarter will again decline sharply, if not by as much as in the fall.

CONSTRUCTION-January was such a bad month for construction, that the bottom may be in sight. Single family home sales plunged to 408,000. At these sales levels, inventories are at an unsatisfactory 9.3 months, although actual inventories of homes have not changed. The south showed the greatest weakness, but sales weakness was widespread. Partially because of such poor sales, starts of single family homes plunged to 632,000 in January. Multi-family activity showed some signs of stabilizing at 218,000. The west showed a slight increase in activity but all other regions fell sharply. Permits also continued to fall, suggesting that no early turn in the housing market is evident.

Public construction plunged while other construction weakened in January to cause an even larger decline than anticipated. Weather may have slightly altered construction activity, but much of the weakness reflects underlying conditions. Hotels, hospitals, and industrial construction strengthened slightly, but all other construction activity weakened. The largest decline in the public sector was in highways. However, the President's transportation program should remedy that weakness later this year.

Construction prices continued to drift downward. However, some price gains are likely once the sector begins its rebound in the spring.

BUSINESS ACTIVITY-Clearly, falling petroleum prices are restraining nondurable shipments and orders. However, weakness in manufacturing was more widespread than there. Total shipments were unchanged while orders fell about the same for durables and nondurables. Inventories were unchanged, suggesting some accumulation after price declines are factored into the analysis. The only significant increase in shipments was for motor vehicles, and sales suggest that such shipments must fall back. Declines in communications equipment, aircraft orders, and nonferrous metals orders account for most of the weakness in orders. Orders for motor vehicles and nonelectrical machinery increased.

Inventories accumulated for materials but fell for finished durable goods and remained unchanged for durable goods in process. Nondurable inventories increased at the finished and in-process stages.

After falling 8% at annual rates during the fall, industrial production appears to be generating a similar decline in the winter. Auto production is near lows at 5.4 million cars or 8.2 million total vehicles. Capacity utilization remains consistent with capacity gains of 2.5% for the year.

PRICES-Price increases in January were surprisingly large. Special circumstances led to a 0.8% increase in the non-volatile portions of GNP. As gasoline prices are falling sharply, some relief in inflationary pressures is likely during the next few months. However, this moderation of inflation will not be apparent in the GNP deflator. Because of distortions in handling imported goods, the decline in prices of imported oil will lead to higher estimates of inflation than during the fourth quarter, when the bias was reversed. Nevertheless, other measures of inflationary pressure clearly reflect price moderation.

The price moderation in consumer services is not expected to persist. Indeed, higher gains than our estimates are possible in the winter. The decline in durables does not reflect the high price gains for automobiles in the CPI. However, even if the winter estimates of inflation are too low, some moderation is likely in the spring.

MISCELLANEOUS-Falling oil prices and volumes have substantially improved the trade balances in December. Further moderation of prices is likely in the winter as the December cost per barrel was $26.03. However, volume should increase from the 198 million barrels delivered in the December. Thus, the oil bill should remain relatively unchanged from December levels through much of 1991. Aside from oil, the trade balances are improving at a $20 billion per year rate. While some backsliding is likely at midyear, substantial improvement in our trade balances are expected.

The economic rebound after the first quarter should firm short-term interest rates. Along with improvement in our trade balances, currency values should begin improving. Indeed, the dip currently projected for the summer months may not materialize. Being long the dollar is probably the right place to be.

After falling hard in the fall, the leading indicators are beginning to signal a rebound ahead. Although the January indicators showed a decline of 0.4%, improving stock price, money stock, orders and hours worked should begin to generate favorable results in February. No dramatic surge in the indicators, or in the economy is expected.

The inventory valuation should fall sharply because of falling oil prices. As a result, adjusted profits will begin improving. Coupled with improving currency values and some gains in bond prices, stock prices should continue to do well. However, the current index is above 205, suggesting that the market has raced ahead of economic conditions and may need to pause.

FINANCIAL MARKETS

Fortunately, the war will not tax the taxpayer, even if the clean-up may eventually cost some resources. This depends upon how forthcoming the allies will be in meeting their pledges. As a result, the federal government may be reaching its maximum deficit burden in the winter quarter. Some spending will keep deficits high in the spring but deficits should then fall later in the year as the economy recovers. Some of the budget restraint legislation will reduce the high employment deficit, leading to some moderation in government borrowing pressures later this year.

However, the shift in consumer sentiment may lead to a reduction in household support for the credit markets. Both the addition of more mortgages and reduced savings should lead to some upward pressures upon interest rates as far as household behavior is concerned. However, household spending should rise slowly, leading to only modest upward interest rate pressures.

The corporate sector may continue to liquidate inventories for another quarter, but the degree of inventory liquidation already is large. Some moderation in capital spending programs also is likely. Later in the year, improving productivity and continued cost containment should permit corporations to expand without external financing.

When these factors are combined, interest rate pressures could be drifting up slightly during the latter part of the year. Also, the Kuwait effect will raise real interest rates during the spring from what they otherwise would be.

The Federal Reserve is convinced that the economy is about to recover without further guidance from them. Therefore, little further decline in short-term interest rates is likely. While this normally should be good for long-term rates, because inflation fighting is more substantial, long-term rates probably will rise initially upon the absence of Federal Reserve support. On balance, interest rates probably will drift lower into the spring and then begin drifting up again during the latter half of the year. A year from now, government interest rates probably will be higher than they are now.

EQUITY MARKETS-Our stock market analysis suggests that the stock market is early in anticipating the economic recovery. Equities already are priced at levels before the war although economic conditions have not regained prewar levels. A stock market normally anticipates six to nine months down the road, but this market is about a year ahead of conditions. Probably, a substantial amount of rotation will develop with no substantial direction in equity values through the summer. A new burst of value gains then are likely late this year and early in 1992.

Financial institutions, utilities, transportation sectors, and international producers all should still do well in the current environment. Cyclical stocks may not perform as strongly as normal in the early phases of a recovery and neither should housing. The global investment strategy should look less inviting while domestic assets should become more attractive. Most of the value is in the lower capitalized stocks over the counter which are just finding niches in the favored industries.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
October	110432		123.1		117733		5.7	10.12	
November	110165	-1.6	123.4	-4.4	117386	-0.9	5.9	10.14	2.1
December	110017		124.0		117574		6.1	10.19	
January 1991	109785		121.7		116922		6.2	10.18	
February	109753 *	-1.6	122.1 *	-5.0	116935 *	-2.2	6.4	10.22 *	2.7
March	109728		122.0		116902		6.5	10.25	
April	109762		122.0		117024		6.5	10.28	
May	109793	0.2	122.1	0.5	117096	0.6	6.6	10.30	3.4
June	109846		122.2		117153		6.6	10.33	
July	109874		122.3		117146		6.7	10.36	
August	109913	0.4	122.4	1.0	117188	0.3	6.8	10.39	3.4
September	109953		122.5		117224		6.8	10.42	
October	109998		122.6		117261		6.8	10.45	
November	110067	0.6	122.7	1.0	117316	0.5	6.8	10.49	3.8
December	110134		122.8		117376		6.7	10.52	
January 1991	110195		123.0		117428		6.8	10.55	
February	110236	0.6	123.1	1.3	117459	0.5	6.9	10.59	4.0
March	110297		123.2		117513		6.9	10.63	
Chng Mar(92)/Mar(91)		0.5		1.0		0.5	1.0 #		3.7
Chng Mar(91)/Mar(90)		-0.4		-1.9		-1.1	0.2 #		3.3

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	4.695		2.732		149.2		3.981		3.832	
November	4.714	3.3	2.732	0.8	164.7	-13.4	3.999	3.2	3.834	3.9
December	4.741		2.754		167.8		4.020		3.852	
January 1991	4.719		2.740		170.3		3.999		3.829	
February	4.737 *	1.6	2.752 *	1.8	172.4 *	27.1	4.018 *	1.6	3.846 *	0.6
March	4.752		2.763		168.8		4.031		3.862	
April	4.778		2.779		176.2		4.053		3.877	
May	4.797	5.3	2.787	5.4	177.1	17.9	4.069	5.4	3.892	4.9
June	4.818		2.799		179.7		4.086		3.906	
July	4.838		2.810		177.5		4.103		3.926	
August	4.857	5.1	2.822	4.9	177.9	-0.9	4.118	5.0	3.941	5.2
September	4.878		2.833		176.3		4.136		3.959	
October	4.901		2.845		173.7		4.156		3.982	
November	4.922	5.5	2.859	5.3	173.5	-6.1	4.174	5.5	4.000	6.1
December	4.947		2.872		176.2		4.195		4.019	
January 1991	4.968		2.886		174.4		4.213		4.039	
February	4.993	5.7	2.901	6.0	178.5	6.7	4.239	6.1	4.060	6.1
March	5.014		2.915		179.1		4.259		4.080	
Chng Mar(92)/Mar(91)		5.5		5.5		6.1		5.7		5.7
Chng Mar(91)/Mar(90)		3.4		3.5		-1.4		5.2		5.5

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.
# is the percentage change in the labor force

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	3723.0		475.5		1216.2		2031.3		2673.6	
November	3724.8	4.0	469.7	-9.2	1219.3	4.4	2035.8	7.2	2670.0	-2.9
December	3742.3		467.3		1218.2		2056.8		2683.8	
January 1991	3718.8		441.1		1218.5		2059.2		2654.0	
February	3735.2 *	0.5	445.8 *	-19.8	1219.4 *	0.5	2070.1 *	5.8	2664.2 *	-1.9
March	3751.1		449.6		1220.2		2081.2		2671.2	
April	3766.2		450.6		1222.4		2093.3		2676.4	
May	3780.4	5.0	451.8	5.6	1223.3	1.5	2105.2	6.9	2678.6	2.4
June	3794.8		452.3		1225.7		2116.7		2681.5	
July	3814.0		454.4		1229.2		2130.4		2687.5	
August	3828.4	5.3	456.5	4.2	1233.1	3.2	2138.9	6.8	2690.6	1.9
September	3846.8		458.1		1238.4		2150.3		2696.7	
October	3869.3		462.4		1243.8		2163.2		2705.9	
November	3887.1	6.2	464.0	7.6	1248.5	4.7	2174.6	6.7	2709.7	2.8
December	3905.7		467.8		1251.1		2186.8		2714.7	
January 1991	3925.5		470.9		1256.2		2198.4		2721.0	
February	3946.2	6.2	473.3	7.7	1261.8	4.5	2211.1	6.8	2726.5	2.4
March	3966.0		476.0		1266.6		2223.4		2732.1	
Chng Mar(92)/Mar(91)		5.7		5.9		3.8		6.8		2.3
Chng Mar(91)/Mar(90)		4.2		-6.8		3.5		7.4		-0.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	151.75		22.57		9.3		97.69		31.49	
November	151.75	2.2	22.27	-5.0	8.7	-28.0	98.29	4.1	31.19	1.6
December	149.56		21.86		8.9		97.89		29.81	
January 1991	148.19		21.76		7.6		97.95		28.48	
February	148.79 *	-5.9	21.70 *	-8.5	8.2 *	-34.5	98.02 *	0.3	29.07 *	-21.8
March	149.30		21.78		8.4		98.09		29.43	
April	149.58		21.80		8.4		98.26		29.52	
May	149.80	2.9	21.76	0.7	8.5	21.4	98.34	1.5	29.70	9.3
June	150.05		21.80		8.5		98.53		29.72	
July	150.56		21.87		8.6		98.81		29.88	
August	151.11	3.6	21.94	3.1	8.8	13.2	99.12	3.2	30.05	5.1
September	151.72		22.05		8.8		99.55		30.12	
October	152.64		22.12		9.0		99.98		30.54	
November	153.21	5.7	22.20	4.6	8.9	12.8	100.36	4.7	30.65	9.8
December	153.85		22.29		9.1		100.57		30.99	
January 1991	154.61		22.39		9.2		100.98		31.24	
February	155.34	5.6	22.45	4.8	9.3	14.0	101.43	4.5	31.46	9.8
March	156.03		22.56		9.4		101.82		31.65	
Chng Mar(92)/Mar(91)		4.5		3.6		11.9		3.8		7.5
Chng Mar(91)/Mar(90)		0.1		-6.0		-11.5		3.6		-6.2

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CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	1.026		0.839		0.187		0.920	
November	1.130	-26.4	0.769	-28.7	0.361	-19.0	0.906	-46.5
December	0.975		0.749		0.226		0.844	
January 1991	0.850		0.632		0.218		0.804	
February	0.853 *	-54.6	0.651 *	-53.6	0.202 *	-57.5	0.792 *	-35.6
March	0.867		0.662		0.205		0.796	
April	0.894		0.683		0.211		0.814	
May	0.914	27.1	0.696	31.5	0.218	14.1	0.826	12.2
June	0.921		0.704		0.217		0.822	
July	0.939		0.713		0.226		0.831	
August	0.945	17.8	0.720	15.8	0.225	24.2	0.838	8.4
September	0.959		0.728		0.231		0.843	
October	0.980		0.740		0.240		0.855	
November	0.993	21.2	0.746	16.3	0.247	37.9	0.871	18.0
December	1.010		0.758		0.252		0.892	
January 1991	1.024		0.769		0.255		0.911	
February	1.043	19.2	0.782	17.4	0.261	24.7	0.926	27.1
March	1.050		0.785		0.265		0.943	
Chng Mar(92)/Mar(91)		21.1		18.6		29.3		18.5
Chng Mar(91)/Mar(90)		-33.2		-33.0		-33.9		-35.4

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	134.6		111.9		176.8		423.3		394.0	
November	132.1	-19.9	113.8	11.4	169.5	-24.1	415.4	-13.4	374.9	-12.9
December	133.3		111.3		165.5		410.1		371.1	
January 1991	130.6		104.7		161.3		396.6		359.2	
February	130.5 *	-8.4	107.3 *	-17.1	158.4 *	-24.8	396.2 *	-17.7	359.2 *	-20.0
March	130.2		109.6		156.9		396.7		359.7	
April	130.1		110.4		157.2		397.7		360.2	
May	130.2	0.0	112.5	18.7	157.9	-2.0	400.6	4.0	362.2	3.1
June	131.0		112.8		159.1		402.9		364.0	
July	130.7		112.6		160.5		403.8		364.1	
August	131.0	1.6	112.9	4.0	161.4	9.4	405.3	5.3	364.5	3.0
September	131.2		113.5		163.1		407.8		365.7	
October	131.5		113.9		164.6		410.0		367.4	
November	132.0	2.8	114.4	4.7	164.9	9.1	411.3	5.8	367.6	3.2
December	132.1		114.6		166.2		412.9		368.0	
January 1991	132.4		114.8		168.1		415.3		369.2	
February	133.0	3.4	115.1	2.9	169.4	10.4	417.5	6.0	370.1	2.7
March	133.5		115.5		170.6		419.6		371.0	
Chng Mar(92)/Mar(91)		2.5		5.4		8.7		5.8		3.2
Chng Mar(91)/Mar(90)		-7.3		-0.3		-24.2		-13.3		-13.6

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments		
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	
October	377.5		129.46		41.63		36.57		
November	378.1	0.5	116.32	-14.1	35.76	19.3	35.92	0.1	
December	375.1		119.88		42.11		36.26		
January 1991	374.9		117.77		38.20		35.88		2
February	374.4 *	-2.4	119.27 *	-10.7	39.40 *	-10.1	35.53 *	-6.0	
March	374.6		118.42		38.76		35.67		
April	375.4		116.69		37.63		35.73		
May	376.2	1.8	117.08	-4.9	37.84	-9.7	35.58	0.4	
June	377.3		117.23		37.96		35.89		
July	378.8		116.91		37.55		36.04		
August	380.1	4.1	116.38	-0.5	37.29	-3.9	36.21	5.1	
September	381.4		117.28		37.46		36.29		
October	382.9		117.94		37.89		36.53		
November	384.3	4.6	119.63	4.5	39.22	6.1	36.42	2.5	
December	386.0		116.85		36.87		36.27		
January 1991	387.5		117.72		37.16		36.18		
February	388.2	4.4	117.69	-1.2	37.22	-7.3	37.02	4.7	
March	390.1		117.96		37.46		37.28		
Chng Mar(92)/Mar(91)		4.1		-0.4		-3.4		4.5	
Chng Mar(91)/Mar(90)		0.8		-8.1		-5.2		-1.3	

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization		
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	
October	814.3		8.77		109.9		83.0		
November	816.1	-0.3	9.23	4.2	108.2	-8.0	81.5	-10.4	
December	810.7		8.88		107.0		80.4		
January 1991	809.5 *		8.19		106.5		79.9		
February	808.1	-2.3	8.56 *	-19.8	106.3 *	-6.9	79.6 *	-9.3	
March	809.2		8.69		106.5		79.5		
April	811.4		8.62		106.2		79.1		
May	814.6	2.7	8.81	14.6	106.1	-0.9	79.0	-3.3	2.0
June	817.1		8.89		106.3		78.9		
July	820.2		8.95		106.5		78.9		
August	823.1	4.5	8.87	3.4	106.8	2.2	79.0	-0.3	
September	826.8		8.72		107.0		78.9		
October	829.4		8.66		107.3		79.0		
November	832.8	4.6	8.77	-3.9	107.5	2.5	79.0	0.0	
December	835.6		8.85		107.5		78.8		
January 1991	838.3		8.93		107.8		78.9		
February	841.6	4.4	8.72	0.8	108.0	2.0	78.9	-0.3	
March	844.7		8.68		108.1		78.8		
Chng Mar(92)/Mar(91)		4.4		-0.1		1.5		-0.9	
Chng Mar(91)/Mar(90)		2.0		-1.5		-1.9		-4.4	

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AR% is the annualized percentage change from the previous quarter.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	133.3		122.2		121.3		132.8	
November	133.7	6.9	122.8	11.3	120.6	16.1	133.4	2.8
December	134.1		122.1		118.9		133.1	
January 1991	134.6		121.9		119.3		134.2	
February	134.7 *	3.1	121.6 *	-2.5	117.6 *	-8.3	134.7	4.9
March	134.9		121.3		116.2		135.3	
April	135.2		121.4		116.5		135.5	
May	135.6	2.5	121.6	0.1	116.8	-3.2	135.9	3.6
June	135.9		121.9		116.9		136.2	
July	136.3		122.1		117.0		136.7	
August	136.7	3.3	122.4	2.5	117.3	-0.6	137.1	3.5
September	137.0		122.6		115.4		137.4	
October	137.4		122.7		117.9		137.7	
November	137.8	3.3	123.0	2.2	118.2	5.7	138.4	3.6
December	138.2		123.3		118.5		138.8	
January 1991	138.6		123.5		118.7		139.1	
February	139.0	3.6	123.9	2.7	119.0	2.7	139.8	4.2
March	139.4		124.1		119.3		140.2	
Chng Mar(92)/Mar(91)		3.4		2.3		2.7		3.6
Chng Mar(91)/Mar(90)		4.8		3.5		2.7		4.0

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	139.3		112.9		134.6		150.2		110.8	
November	139.5	7.1	112.7	1.7	135.0	11.0	150.7	5.5	110.8	-1.0
December	139.4		112.7		135.2		150.4		110.5	
January 1991	140.1		112.4		135.3		151.3		110.4	
February	140.2 *	2.5	112.6 *	-0.6	134.8 *	-0.3	151.8 *	3.9	110.3 *	-1.3
March	140.4		112.8		134.4		152.5		110.3	
April	140.7		112.8		134.5		153.0		110.4	
May	141.1	2.5	113.0	1.3	134.7	-0.3	153.6	4.6	110.6	0.8
June	141.5		113.1		135.0		154.1		110.7	
July	141.9		113.3		135.3		154.6		110.9	
August	142.3	3.3	113.5	1.9	135.6	2.5	155.1	4.1	111.2	2.3
September	142.6		113.7		135.8		155.6		111.5	
October	143.0		113.8		136.1		156.1		111.6	
November	143.4	3.3	114.1	2.0	136.4	2.5	156.7	4.2	111.9	2.5
December	143.9		114.3		136.7		157.3		112.2	
January 1991	144.3		114.6		137.0		157.8		112.5	
February	144.7	3.6	114.8	2.6	137.4	2.9	158.4	4.4	112.8	3.3
March	145.2		115.0		137.7		159.0		113.1	
Chng Mar(92)/Mar(91)		3.4		2.0		2.5		4.3		2.5
Chng Mar(92)/Mar(91)		4.3		0.3		4.1		4.7		0.5

PROJ includes current information until the * and then projections by month thereafter
ARX is the annualized percentage change from the previous quarter.

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
October	-10.99		141.5		5535		4168		-31.4
November	-8.91	-25.8	139.9	-4.4	5521	0.5	4139	-2.0	-25.3
December	-6.25		139.7		5505		4135		-18.6
January 1991	-6.63 *		139.1		5524		4116		-7.3
February	-6.89	67.3	140.0 *	-1.3	5538	2.2	4113	-2.5	-4.6
March	-6.25		140.6		5592		4134		-3.5
April	-7.28		140.3		5595		4128		-3.8
May	-7.46	-52.5	141.2	3.4	5607	3.8	4126	0.2	-4.9
June	-7.23		141.7		5606		4115		-7.2
July	-7.16		142.2		5658		4139		-8.8
August	-7.48	3.6	142.8	4.7	5688	6.8	4150	3.2	-10.1
September	-7.13		143.1		5741		4178		-10.8
October	-6.92		143.4		5766		4187		-11.5
November	-6.98	7.0	143.8	3.1	5801	7.1	4193	3.3	-12.7
December	-7.48		144.2		5814		4190		-13.7
January 1991	-7.41		144.6		5840		4197		-15.1
February	-6.93	8.7	144.9	3.1	5888	6.3	4213	2.0	-15.4
March	-6.56		145.2		5918		4222		-16.7
Chng Mar(92)/Mar(91)		-5.0		3.3		5.8		2.1	
Chng Mar(91)/Mar(90)		25.3		-3.3		5.0		-0.7	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	83.43		144.6		8.86		168.05	
November	82.12	-19.0	141.7	-41.3	8.50	-11.4	172.21	-21.1
December	83.35		143.4		8.24		179.57	
January 1991	83.51		144.0		8.27		177.95	
February	83.07	3.0	142.2	-0.3	8.05	-15.6	195.99	44.5
March	84.16 *		143.1		8.22 *		196.04 *	
April	83.11		142.6		8.05		197.40	
May	82.28	-4.9	142.5	-0.4	7.84	-10.9	200.86	21.6
June	82.25		143.8		7.95		200.22	
July	81.67		143.7		8.02		197.36	
August	80.98	-6.1	146.1	10.0	8.15	9.0	196.17	-2.9
September	81.15		149.5		8.19		200.52	
October	81.89		149.2		8.18		202.66	
November	82.24	4.2	150.6	11.7	8.33	9.0	202.16	9.5
December	82.21		151.8		8.38		202.86	
January 1991	83.27		153.4		8.27		210.83	
February	83.76	7.9	153.5	7.5	8.36	2.3	210.39	16.2
March	84.01		153.0		8.40		209.66	
Chng Mar(92)/Mar(91)		-0.2		6.9		2.2		7.0
Chng Mar(91)/Mar(90)		-11.7		-15.5		-4.0		5.4

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	317.9		821.2		3325.2		8.11		7.16	
November	319.5	8.3	823.3	4.4	3325.8	3.2	7.83	-4.0	7.05	-16.3
December	319.9		825.4		3330.5		7.31		6.70	
January 1991	328.3		826.7		3332.5		6.91		6.28	
February	332.8 *	17.7	834.2 *	5.5	3352.5 *	3.0	6.33 *	-50.1	5.93 *	-41.1
March	336.0		842.1		3369.7		6.30		6.11	
April	338.9		845.8		3384.5		6.07		5.96	
May	341.1	11.1	848.5	7.0	3402.6	6.0	5.88	-31.8	5.81	-16.5
June	343.7		851.6		3414.9		5.81		5.74	
July	344.8		854.2		3440.8		5.84		5.82	
August	346.9	6.9	857.9	4.3	3462.1	7.4	5.87	-4.9	5.88	2.8
September	349.2		860.5		3482.3		5.83		5.93	
October	351.1		864.3		3498.3		5.98		6.04	
November	352.8	6.9	866.8	4.5	3511.8	6.2	6.03	13.1	6.07	14.1
December	354.6		870.2		3531.7		6.08		6.11	
January 1991	355.8		873.5		3546.8		6.21		6.23	
February	356.9	4.8	876.9	4.6	3561.4	5.6	6.28	17.6	6.34	17.0
March	358.4		880.1		3578.2		6.35		6.38	
Chng Mar(92)/Mar(91)		6.7		4.5		6.2		0.8		4.4
Chng Mar(91)/Mar(90)		10.8		4.6		3.1		-23.9		-22.2

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	9.53		7.49		7.98		8.06		10.00	
November	9.31	-4.5	7.16	-3.6	7.85	-3.3	7.98	-4.4	10.00	0.0
December	9.05		7.09		7.80		7.82		10.00	
January 1991	9.04		7.08		7.10		7.17		9.52	
February	8.84	-15.5	6.95	-13.8	6.52	-47.4	6.69	-45.4	9.08	-28.4
March	8.86 *		6.92 *		6.50 *		6.65 *		9.00 *	
April	8.67		6.78		6.27		6.38		9.00	
May	8.46	-16.5	6.59	-18.6	6.05	-31.1	6.21	-30.2	9.00	-11.4
June	8.43		6.53		6.01		6.16		8.78	
July	8.59		6.72		5.89		6.02		8.73	
August	8.68	7.6	6.84	12.0	5.93	-10.3	6.07	-10.2	8.50	-14.8
September	8.76		6.91		6.02		6.16		8.50	
October	8.81		6.95		6.12		6.24		8.50	
November	8.99	13.4	7.08	14.0	6.17	16.9	6.28	14.5	8.50	-3.5
December	9.06		7.12		6.26		6.36		8.50	
January 1991	9.02		7.05		6.34		6.43		8.73	
February	9.12	9.1	7.16	7.2	6.38	14.1	6.48	14.3	8.75	14.4
March	9.31		7.31		6.45		6.61		8.89	
Chng Mar(92)/Mar(91)		5.1		5.6		-0.8		-0.6		-1.2
Chng Mar(91)/Mar(90)		-5.4		-5.1		-21.5		-20.4		-10.0

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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
March 1991

Dr. Donald Ratajczak, Director
For Release: Monday, April 8, 1991

BOTH RECESSION AND INFLATION WORRIES PERSIST

Anyone who thought the recession would end following the victory in the Middle East received a rude awakening with the 206,000 job loss for March. Moreover, the initial claims suggest that activity continued to deteriorate in the two weeks following the victory. Consumer sentiment and stock prices clearly rebounded, contributing 75% to the gain in the leading indicators for February and probably a similar amount to a similar gain in March; but these are the psychological variables. Orders remain soft. Indeed, industrial production probably will fall enough to drop capacity utilization to 78.5% in March. Normally, orders begin to be canceled once utilization rates fall below 78%.

So far, this recession has been surprisingly labor intensive. More than 1.5 million payroll jobs have been lost since last July, the probable start of the downturn. This is more job loss than half the eight previous recessions since world war II. However, industrial production has only fallen 7.5% from the cyclical peak. Only two other postwar recessions have suffered lesser declines in the industrial sector. More tellingly, the average peak to trough drop in GNP has been 2.1% in the postwar period. With the downward revised 1.6% drop for the fourth quarter at annual rates (0.4% from peak), declines of more than 4% during the first quarter and 3% during the spring would be needed merely to be average. We still believe such declines are not likely.

However, the case for the continuation of the recession is strengthening. Not only are manufacturing orders, and therefore activity, at a critical juncture, but the surge in consumer sentiment could easily evaporate if unemployment continues to rise. Even the traditional lead of housing activity may be more closely related to springlike weather in February than to any unbundling of households who could not or would not finance housing at higher mortgage rates. While affordability is up and mortgage rates are down, mortgage rates have been stalled by the absence of further interest rate initiatives by the Federal Reserve.

The one continually strong sector, international sales, also is becoming increasingly fragile. World economies are beginning to slow. While American producers remain competitive, the recent surge in the dollar's value has reduced that competitive advantage. Purchasing power parity (where goods cost the same in terms of exchange adjusted currencies at home and abroad except for transactions and transportation costs) is rapidly approaching in Europe. We estimate that a mark between 1.8 and 1.9 to the dollar would achieve that relationship. The yen probably would also achieve such status near 160 to the dollar.

If purchasing power parity is achieved while the United States continues to run high monthly deficits in its trade accounts, the dollar probably would resume its decline. That eventually would restore competitiveness to American producers. In the meantime, however, international sales should grow more slowly.

Thus, the economic recovery is not assured. Nevertheless, the Federal Reserve has hesitated to provide more stimulus because the money stock has begun to grow in recent weeks following months of little growth. More significantly, some inflationary pressures have resurfaced. This, in turn, has caused long-term interest rates to rise, a sign of rising inflationary fears. However, these fears are not yet justified.

The acceleration in the money stock could be nothing more than poor seasonal adjustment factors, especially in February. In the last five Februaries, money growth has been exceptional relative to the preceding and succeeding month. Although new seasonal factors are gradually removing this effect, another February distortion probably developed. Moreover, even with rapid gains in February and March, M2 growth for the quarter will remain a sluggish 3.4% annualized rate of growth. Despite more rapid gains in the monetary base and in currency, no surge in money growth appears to be developing. Instead, high currency use, probably abroad, has been exhausting most of the growth in the monetary base. Of course, continuation of rapid money growth would create problems, but the March gains appear to be within Federal Reserve targets, and no acceleration of money growth is occurring at the end of the month.

Also concerning investors, however, is the acceleration in inflation once food and energy prices are removed. Unquestionably, this "core inflation" has spurted by 0.8% in January and 0.7% in February in the CPI. However, half this gain has been the result of higher government fees, such as postal rates, and turnpike tolls, higher property and sales taxes, and increased excise taxes on alcohol, tobacco products, and luxury items. Some increases in imported goods account for another couple of ticks in the index. While those gains in import prices are related to earlier weakness of the dollar, the dollar's recent strength soon should slow price gains for clothing, autos, and entertainment commodities. Therefore, too much has been said about this measure of "core inflation."

A better measure of underlying inflation is the change in labor costs. To be sure, recessions lead to poor productivity gains, as production falls below desired levels. Therefore, unit labor costs have not yet subsided. However, labor costs slow at the end of recessions and so do inflationary pressures. Even with a 5 cent surge in March, the hourly earnings index is growing less than 3%. Most wage surveys show a half point decrease in wage gains from last fall's survey and from a year ago. The employment cost index almost certainly will slow from previous year levels during the first quarter. Furthermore, the hourly earnings index actually has slowed from a previous year twelve month gain of 4.2% to a current gain of 3.2%. All of this suggests that underlying inflation has slowed by at least half a percent, just as one would expect from a recession. Unfortunately, investors continue to assume that core inflation will dictate inflationary trends once the recovery begins. As a result, they have overstated the inflationary risk.

Unfortunately, so has the Federal Reserve. Without further efforts to liquify the economy, this recession could deepen further. Money growth soon would vanish under such circumstances, while the dollar would continue to strengthen from the money restraint.

Indeed, both the bond and stock markets have been too enthusiastic about the impending recovery. Long-term bonds have increased half a percent from their lows, although some rate declines have reappeared in recent weeks. Stock prices have soared on the assumption that corporate profits soon would rebound. Indeed, profits have been surprisingly robust for a recession. Normally, profits fall twice as fast as real economic activity. However, after tax profits actually increased in the fourth quarter. The gains were caused by substantial returns from international investments. Because those economies were beginning to slow, most of these gains probably reflect unusually strong currency translation gains. If the corporations remained as unhedged in the currency markets during the first quarter, the strong dollar will reverse these gains. Therefore, substantial amounts of adverse earnings surprises could surface.

Even so, the surprisingly strong profit performance during the fourth quarter indicates that adjusted profits did better than expected. Therefore, stock prices should not have declined at the annualized 21% that they did. Rather some modest gains in stock valuations would have been justified. Of course, uncertainties from the war are responsible for the poor equity performance at that time. As those uncertainties have been removed, some gains in equity value were inevitable. When those adjustments following the removal of wartime uncertainty are added to falling interest rates and a strengthening dollar (which should increase the equity demand of foreign investors), significant gains in equity value should have been expected during the winter. Of course, the gains have been even more significant than one would predict, with the New York composite reaching 208 in recent days. Our model suggests that prices near that level can be justified, but even these levels require an early end to the recession. If the recession lingers, a substantial correction in the stock market cannot be ruled out. Therefore, stock values probably are due for some consolidation in the next few months. The multinational corporations are especially vulnerable, because they have benefitted substantially from dollar weakness and will be slowed by dollar strength.

On balance, an early recovery from this recession still appears to be the most likely outcome. The housing market is rebounding, mortgage rates have fallen, consumer sentiment has improved significantly, and inflation has been trailing wage gains in recent months. To be sure, most of these gains in purchasing power are caused by falling energy prices, which have run their course. Nevertheless, more money remains in the pockets of consumers than last fall, when energy prices were exhausting spending power. Thus, a consumer led recovery remains the most likely outcome. But enough uncertainty persists to slow the enthusiasm for this forecast.

Monthly Statistical Highlights

	MARCH 1991	APRIL 1991	MAY 1991
Payroll Employment		-27,000	24,000
Index of Hours Worked		-0.1%	0.0%
Household Employment		-18,000	-6,000
Civilian Unemployment Rate		6.9%	7.0%
Personal Income	0.3%	0.3%	0.4%
Savings Rate	4.4%	4.4%	4.3%
Personal Consumption	0.3%	0.5%	0.5%
Retail Sales	0.2%	0.4%	0.4%
Auto Sales	8.4*	8.4*	8.5*
Housing Starts	-3.8%	2.1%	2.3%
Housing Permits	-2.5%	1.7%	3.4%
Construction Expenditures	-0.6%	0.5%	0.7%
Business Inventories	0.3%	0.3%	0.3%
Orders for Durable Goods	-0.2%	0.8%	-0.7%
Orders - Nondefense Capital Goods	-2.2	-1.3%	-2.1%
Industrial Production	-0.2%	0.2%	0.2%
CPI	0.4%	0.2%	0.3%
PPI	0.2%	0.2%	0.2%
Consumption Deflator	0.3%	0.3%	0.2%
Leading Indicators	1.1%	0.3%	-0.2%
Currency Index	3.7%	1.0%	-0.5%
Equity Index	0.7%	3.2%	0.6%
Real GNP (annual rate)	-2.9%	3.6%	0.9%
M1 (annual rate)	5.7%	6.2%	4.9%
M2 (annual rate)	6.6%	6.0%	6.1%

* auto sales in millions

COMMENTARY

EMPLOYMENT-The Employment Situation for March showed greater weakness than had been expected. Payroll employment fell 206,000 and the hours worked fell by 0.7%. Weakness was widespread with the diffusion index at 39.5%. Clearly, the recession did not end in March. Moreover, the initial claims for the reporting week showed the largest claims of the recession while the insured unemployment rate rose to 3.3%, a full 1.5 percentage points above its cyclical low. The unemployment rate rose to 6.8%, 1.8 percentage points above its cyclical low (but less than the 2.5 percentage point average rise for postwar recessions). Sluggish labor force growth prevented the unemployment rate from rising higher. This employment performance indicates that hours worked has fallen more during the first quarter than in the fourth quarter. Also, the quarter has ended at a low point, probably suggesting the second quarter will register negative growth in hours worked. As a result, a decline in second quarter GNP cannot be ruled out.

Unfortunately, the hourly earnings rose by 5 cents, although a similar rise a year ago did not change the 12 month change in that measure. This might indicate that the workweek did not fall as sharply as reported, or that wage inflation is beginning to reappear. The gains were most substantial in the financial sector, which could be nothing more than the firing of lower paid personnel. Certainly, substantial salary increases in the finance sector is not likely at this time.

PERSONAL INCOME AND OUTLAYS-Wage and salary earnings were less than expected for February. Such payments almost certainly will be less in the winter than in the fall. Also, property income has come to a halt, as interest income has begun to fall. However, some gains in farm subsidies generated a moderate gain in personal income. Certainly, no surge in income is likely in March, although the higher hourly earnings will offset the reduction in employment and in the workweek. Because outlays rebounded in durables and services in February, savings fell by $10 billion. Nevertheless, the uncertainties of the war clearly caused a shift in the savings schedule, which contributed to the magnitude of economic weakness. Moderate unwinding of that savings is likely in the months ahead, but the savings rate is unusually low for the beginning of an economic expansion. Thus, the consumer driven recovery also will be weak.

Despite a rebound of durable consumption in February, no surge in auto sales was apparent for March. Assuming the nonauto durables rebounded in February because of favorable weather (which tends to encourage remodeling and refurnishing) some backsliding is expected here in the next few months. Nevertheless, the collapse of activity in January because of the CNN effect (everyone was watching CNN about the war instead of spending and even working), some recovery is expected during the second quarter. However, job growth will be needed to sustain these purchases into the summer. Sluggishness in nondurables was especially surprising, because the weakness was not only because of falling gasoline prices. However, weakness in service expenditures is the result of springlike weather that caused less consumption of utilities than normal. A rebound in such expenditures is likely next month. After inflation, consumption is falling almost as much during the winter as in the fall.

CONSTRUCTION-Housing starts finally rebounded from unusually low levels in February. However, almost all the gain was in the Midwest, where unseasonal weather may have been more important than rising consumer sentiment and falling mortgage rates. However, the rise in permits suggests that January may have been the bottom for housing construction. Even with relatively large percentage gains in subsequent quarters, housing starts still will average only slightly more than a million, the lowest level since the severe recession of 1974.

While housing is beginning its traditional leading role in the economic recovery, activity was so low in January that construction will contribute more weakness to economic activity in the winter than in the fall. Expenditures on residential construction should only stabilize in the spring before adding to activity in the summer. Despite a sharp rebound in public construction in February, activity there has plunged for the quarter. Some rebound is expected next quarter, although budgetary restraints may prevent any substantial rebound in those activities. Nonresidential construction did not snap back in February despite more favorable weather. With hours worked in construction falling sharply for March, another quarter of sharp declines for this activity is likely. Weakness was widespread but was especially significant in commercial and retail construction. Our estimates of an early, albeit modest rebound in this sector may be optimistic.

The construction weakness has prevented any price gains for construction product. This is one sector that clearly is reflecting disinflationary tendencies. A modest rebound in prices is likely as housing begins to revive, but no significant surge in construction costs is likely before next year.

BUSINESS ACTIVITY-Activity appears to have fallen more sharply here than in any other sector during the quarter. Therefore, fixed investment almost certainly fell more sharply during the first quarter than in the fourth quarter. Aircraft orders are slowing and production is peaking. As auto shipments have slowed, this has led to a sharp falloff in transportation equipment shipments. Also, machinery shipments have weakened, while the latest manufacturing report suggests that computer equipment also is sluggish. Primary metals orders fell sharply following the US Steelworkers' contract agreement with USX, and activity may remain sluggish until inventories are reduced during the spring. Despite the war in the Persian Gulf, defense shipments also fell. Indeed, durable defense goods may rebound even less than expected, as tanks and planes need less replacement than missiles and shells. The latter are included in nondurables, despite the use of durable goods industry equipment to produce many of them. **Industrial production** fell more during the winter than in the fall, and may fall more than currently contained in our tables. As mentioned earlier, the plunge in capacity utilization could lead to order cancellations. This would dramatically reduce backlog and lead to further weakness in the capital goods industry. Some shrinkage in the backlog already is projected for the spring.

Currently, our projections show schizophrenic behavior in inventories. Partially as a result of price changes, manufacturing inventories are falling during the winter following modest gains in the fall. However, business inventories are rising. Some of this reflects unintended inventory accumulation at the retail level while inventories have been restrained by manufacturers. However, this data is the least complete for the winter quarter. Therefore, revisions may show closer correspondence between the two series. Because of the slowing in inventory valuation, inventory investment will not fall as much this quarter as in the fall.

PRICES-Although some of the inflationary pressures are caused by government taxes and fees, inflation clearly is not slowing as rapidly as expected. Most of the energy price decline has occurred. Therefore, our previous estimate that prices would grow most slowly during the spring is not likely. Producer prices already have completed their deflation. Consumer prices never moderated significantly excluding energy, although some easing can be constructed if the government effects are removed.

Currently, the spurt in durable goods prices in February is assumed to be an aberration. Clearly, further surges of that magnitude would require much higher price estimates in the next few months. Prices of nondurables have slowed less than expected and the energy effects are ending. If inflation becomes a problem, it will probably occur here first. It is noteworthy that service inflation has not intensified in the quarter despite surges in lodging and finance charges.

Of course, the **GNP deflator** will grow much more sharply during the winter, as composition effects are not expected to be favorable. The fixed weighted deflator should improve modestly, but distortions in the trade deflators still should generate a surge in the deflator. Despite some acceleration in durable goods prices in the next year, overall inflation still appears to be moderating slightly in the next twelve months.

MISCELLANEOUS-Falling oil prices should substantially improve the trade balances this quarter. However, the volume of oil should be rising, suggesting that the trade sector will not add to economic activity in the winter, as it did in the fall. Currency values are rebounding, and should increase sharply during the spring before interest rate differentials overcome slowing international economies to restore dollar weakness later in the year. Nevertheless, after falling to $80 billion this year, the merchandise trade deficit could remain near those levels next year. Therefore, the stimulus from the trade sector could easily evaporate, while the dollar's strength certainly could reverse course before the year is out.

February's rebound in the leading indicators may generate modest gains for the quarter. This could be the start of the economic recovery, although the psychological variables currently dominate the gains. A stutter in the spring certainly is possible.

Despite inflationary worries, our estimates of the IVA show substantial improvement this year. Some of the strong gains will be reversed this summer as prices stabilize for energy materials. Nevertheless, real growth in inventories is likely to stimulate economic activity by summer.

The surge in adjusted profits while economic activity declined in the fall requires some explanation. This upward revision occurred because operating profits before taxes fell by only $8 billion instead of the $17 billion expected. This was largely the result of higher expenditures than originally reported for the fourth quarter. (Because most other income items are reported before profits, any upward revision in expenditures necessarily leads to an upward revision in operating profits.) Clearly, the modest decline in profits during the first quarter of a downturn is surprising. Apparently, vigorous cost cutting is responsible for this result. Also, the composition of profits was changed from earlier estimates to include a sharp $10 billion gain in profits abroad. Because of tax treaties most of these profits already paid taxes where they were generated and therefore do not pay taxes in the United States. Thus, adding to profits from the rest of the world leads to no change in tax liabilities at home.

The rebound in profits abroad appears to be caused by greater dollar exposure than in the past. As a result, the falling dollar converted the marks, yen and other profits into more dollars. A reverse of this pattern is likely in the winter unless more currency hedges were established. (The dramatic reversal of IBM's earnings during the fall and winter may partially reflect this currency translation.)

However, because profits were stronger than previously expected, stock values were not falling to reflect eroding profit opportunities but reflect the uncertainties of war. Removing those uncertainties appropriately led to explosive growth in equity values.

Our estimates currently show the last declining month of GNP in March. The rebound in April reflects gains in consumption, construction, and trade activity. If some of those sectors do not improve, however, the recovery will be delayed. Clearly, March could be the last month of recession, but more information is needed to make that determination.

FINANCIAL MARKETS

Inflationary fears certainly led to the rebound in long-term interest rates following a low early in February. The poor performance of the core inflation began the rebound of interest rates, but the rates have not rebounded sharply. Part of this may be caused by the reduced cost of holding bond inventories as short-term rates continue to decline. However, changes in interest rates also must be factored into bond holdings for inventory purposes by dealers. The more likely explanation is that sufficient liquidity is available to allow further reductions in short-term and long-term rates.

Because of the war's short duration, its costs will be minimal to American taxpayers. Therefore, the $318 billion deficit excluding social security surpluses and including borrowing to acquire the assets of failed thrifts will be close to the actual deficit. (For national income accounts purposes, which measures the resource displacement of government borrowings, social security surpluses should be included and purchases of other assets should be excluded. On this basis, the deficit will average about the same this year as last year.) Once the recovery begins, the deficit will fall, although other borrowings may offset any interest rate relief that a declining deficit otherwise would generate. Thus, government borrowings should not add more to interest rate pressures than already is being exerted. Some relief may actually surface early next year.

Corporate borrowings currently are low as capital spending is falling and inventories continue to be liquidated. To be sure profits are not strong, but they are stronger than in other recessions of this magnitude. Therefore, some moderation in interest rate pressures currently is being created by corporate behavior. When inventory rebuilding reappears later this year, some upward pressure upon interest rates may develop, although these expenditures normally are lagged until the recovery is assured.

Consumers, who saved even as incomes weakened, probably will offset the favorable credit conditions from the corporate sector. Mortgage activity already is improving. Soon, consumers will be adding to other borrowings, although credit outstanding declined for the third consecutive month in February. Even so, no surge in consumer borrowing is expected. Therefore, only a gradual upward drift in interest rates would be expected from this activity.

Now that the dollar is rallying and European prospects are dimming, international investors again are being attracted to American assets. They clearly have been influential in the equity markets and also may have increased their purchases of bonds. This should hold into the summer. Then a dollar reversal again could lead to capital withdrawals.

When all these factors are considered, interest rates should continue declining through the spring. If the Federal Reserve refuses to accommodate this decline, money growth again will slow, jeopardizing the recovery. However, the Federal Reserve is expected to ease short-term rates further to prevent such problems. This should allow a further decline in the prime rate during the spring along with modest further decreases in other short-term interest rates. Long-term interest rates also should resume their downward drift into the summer. Of course, the gap between the federal funds rate and commercial paper rates would need to narrow again to show that interest rate pressures again are easing. Such a narrowing already may have begun.

EQUITY MARKETS-The revised corporate profits for the fourth quarter indicates that equity values should have rallied sharply once wartime uncertainties declined. However, the dollar exposure of foreign earnings makes the Dow stocks especially vulnerable to earnings surprises as they announce their winter quarter earnings. Profit-taking in that group certainly is recommended.

Even so, if interest rates resume their decline this spring, further gains in equity values are likely. However, our model suggests that a New York composite index of 208 will not be supported by economic conditions until early next year. A forward looking market, such as the stock exchange, should anticipate those gains, but current values appear to be ahead of current conditions. Therefore, a period of stock market consolidation is likely. However, a pullback to 200 on the composite index, or 2860 on the Dow may constitute a short-term buying opportunity that would provide moderate short-term gains.

Cyclical stocks still should be avoided along with the capital goods stocks unless they are niche players, such as medical technology. Utilities and financial stocks are promising, although the latter already has rebounded sharply. Value remains in the lower capitalized stocks, where growth is being rewarded with only half the premium that is available to the Blue Chips.

Food and lodging companies will show especially weak first quarters because of the war and CNN effects. However, they may be good values for appreciation in the spring and summer. Airline stocks also show some promise at current prices. Secondary technology issues along with software issues continue to provide value, although serious study is necessary in this rapidly changing area.

Consumer stocks that are not multinational should also do well, as the consumer begins spending. Some consumer durable companies may have promise if their multinational holdings are not substantial, such as some furniture companies.

The market should continue to move forward, but the direct path upward will flatten considerably in the next few months.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
October	110432		123.1		117733		5.7	10.12	
November	110165	-1.7	123.4	-4.4	117386	-0.9	5.9	10.14	2.1
December	110004		124.0		117574		6.1	10.19	
January 1991	109771		121.9		116922		6.2	10.20	
February	109587	-2.1	122.3	-4.4	116918	-2.2	6.5	10.20	2.1
March	109453 *		122.2 *		116873 *		6.6 *	10.21 *	
April	109426		122.1		116855		6.7	10.24	
May	109450	-0.5	122.1	-0.0	116849	-0.2	6.8	10.26	2.4
June	109489		122.2		116863		6.9	10.29	
July	109524		122.3		116905		6.9	10.31	
August	109563	0.4	122.4	1.0	116943	0.3	6.9	10.33	2.8
September	109607		122.6		117022		6.9	10.36	
October	109684		122.7		117081		6.9	10.39	
November	109743	0.6	122.8	1.2	117224	0.7	6.8	10.41	3.1
December	109792		122.9		117221		7.0	10.44	
January 1992	109843		123.0		117286		7.0	10.47	
February	109904	0.6	123.1	1.0	117329	0.5	7.0	10.50	3.4
March	109986		123.2		117384		6.9	10.53	
Chng Mar(92)/Mar(91)		0.5		0.8		0.4	0.8 #		3.1
Chng Mar(91)/Mar(90)		-0.6		-1.8		-1.2	0.3 #		2.8

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	4.696		2.732		152.5		3.982		3.830	
November	4.716	3.5	2.732	0.8	166.1	-9.7	4.001	3.2	3.835	3.9
December	4.743		2.754		183.9		4.022		3.839	
January 1991	4.724		2.738		187.3		4.005		3.817	
February	4.736	1.6	2.742	0.4	177.1	36.5	4.017	1.5	3.840	0.2
March	4.751 *		2.746 *		178.8 *		4.030 *		3.851 *	
April	4.770		2.754		177.2		4.045		3.868	
May	4.788	4.6	2.763	3.3	173.7	-11.4	4.060	4.5	3.886	5.3
June	4.812		2.777		176.0		4.080		3.904	
July	4.835		2.790		177.7		4.100		3.922	
August	4.857	5.7	2.803	5.6	179.8	6.4	4.118	5.6	3.938	5.6
September	4.878		2.815		177.7		4.135		3.958	
October	4.901		2.829		178.9		4.155		3.976	
November	4.925	5.6	2.844	5.8	182.1	0.5	4.176	5.5	3.994	5.8
December	4.944		2.855		174.8		4.190		4.015	
January 1992	4.966		2.866		180.6		4.213		4.032	
February	4.989	5.5	2.880	5.5	184.0	11.3	4.236	6.0	4.052	5.8
March	5.014		2.897		185.9		4.257		4.071	
Chng Mar(92)/Mar(91)		5.5		5.5		4.0		5.6		5.7
Chng Mar(91)/Mar(90)		3.4		2.8		-14.4		2.9		3.9

PROJ includes current information until the * and then projections by month thereafter
ARX is the annualized percentage change from the previous quarter.
# is the percentage change in the labor force

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	3720.5		474.6		1216.2		2029.8		2675.6	
November	3725.6	4.0	468.7	-10.1	1219.3	3.7	2037.6	7.0	2672.3	-3.4
December	3728.6		462.2		1212.5		2053.9		2672.8	
January 1991	3707.4		441.0		1204.7		2061.7		2646.1	
February	3729.8	0.1	458.2	-13.7	1202.3	-3.9	2069.3	6.0	2657.4	-3.0
March	3740.7 *		455.5 *		1204.8 *		2080.4 *		2656.3 *	
April	3757.9		457.1		1209.2		2091.6		2661.5	
May	3775.5	5.4	459.4	6.7	1212.7	3.1	2103.4	6.5	2667.6	2.1
June	3793.5		460.4		1217.4		2115.7		2672.8	
July	3811.3		462.9		1221.0		2127.4		2677.8	
August	3827.4	5.7	465.4	5.8	1223.5	3.6	2138.5	6.9	2681.1	2.2
September	3846.7		468.3		1227.1		2151.4		2686.8	
October	3865.0		470.8		1230.9		2163.2		2691.4	
November	3882.5	5.9	472.2	6.8	1235.7	3.9	2174.6	6.9	2694.8	2.1
December	3903.5		476.7		1240.0		2186.8		2701.9	
January 1992	3920.2		478.3		1243.5		2198.4		2705.9	
February	3939.8	5.9	481.3	6.9	1247.5	3.9	2211.1	6.8	2711.4	2.3
March	3958.8		484.1		1251.3		2223.4		2715.9	
Chng Mar(92)/Mar(91)		5.8		6.3		3.9		6.9		2.2
Chng Mar(91)/Mar(90)		4.0		-4.9		2.2		7.4		-0.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	151.75		22.57		9.3		97.69		31.49	
November	151.75	2.2	22.27	-5.1	8.7	-28.0	98.29	3.8	31.19	1.8
December	149.06		21.81		8.9		97.29		29.96	
January 1991	146.98		21.57		7.6		96.75		28.66	
February	148.13	-7.8	21.81	-9.2	8.3	-33.4	96.72	-3.9	29.60	-18.4
March	148.40 *		21.69 *		8.4 *		96.93 *		29.78 *	
April	148.93		21.80		8.4		97.28		29.85	
May	149.47	4.4	21.86	3.2	8.5	19.4	97.56	3.3	30.05	9.2
June	149.96		21.93		8.5		97.94		30.09	
July	150.53		21.97		8.6		98.23		30.33	
August	151.02	4.4	22.03	3.1	8.7	11.5	98.43	3.6	30.56	7.9
September	151.63		22.09		8.8		98.72		30.82	
October	152.23		22.22		8.6		99.03		30.98	
November	152.77	4.9	22.18	3.2	8.7	1.5	99.41	3.9	31.18	9.5
December	153.62		22.21		8.9		99.76		31.65	
January 1992	154.09		22.33		8.9		100.04		31.72	
February	154.74	5.0	22.45	4.5	9.0	12.8	100.36	3.9	31.93	8.7
March	155.37		22.56		9.1		100.67		32.14	
Chng Mar(92)/Mar(91)		4.7		4.0		8.3		3.9		7.9
Chng Mar(91)/Mar(90)		-0.6		-6.4		-11.6		2.4		-5.4

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CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	1.026		0.839		0.187		0.920	
November	1.130	-26.8	0.769	-28.7	0.361	-19.0	0.906	-46.5
December	0.971		0.751		0.220		0.844	
January 1991	0.850		0.652		0.198		0.797	
February	0.989	-36.6	0.771	-28.9	0.218	-56.4	0.865	-22.5
March	0.951 *		0.743 *		0.208 *		0.843 *	
April	0.971		0.756		0.215		0.857	
May	0.993	29.1	0.775	31.6	0.218	20.7	0.886	26.0
June	1.010		0.789		0.221		0.911	
July	1.028		0.802		0.226		0.924	
August	1.018	15.8	0.789	14.3	0.229	21.1	0.912	15.9
September	1.039		0.808		0.231		0.918	
October	1.054		0.816		0.238		0.946	
November	1.076	18.8	0.834	18.1	0.242	21.3	0.962	21.1
December	1.091		0.851		0.240		0.981	
January 1992	1.102		0.860		0.242		0.997	
February	1.122	18.4	0.874	19.9	0.248	13.4	1.006	18.9
March	1.136		0.883		0.253		1.014	
Chng Mar(92)/Mar(91)		19.5		18.8		21.6		20.3
Chng Mar(91)/Mar(90)		-22.8		-18.5		-35.0		-31.6

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	134.8		110.8		174.6		420.2		379.6	
November	132.6	-21.1	113.9	9.8	169.3	-22.9	415.8	-13.4	375.9	-12.9
December	130.7		111.2		164.8		406.7		368.1	
January 1991	130.9		103.5		161.0		395.4		358.2	
February	130.3	-7.0	109.7	-15.8	155.1	-26.9	395.1	-17.8	357.6	-17.5
March	129.7 *		108.6 *		154.3 *		392.6 *		355.3 *	
April	129.5		109.4		155.6		394.5		356.4	
May	129.8	-1.9	110.3	11.3	157.2	1.1	397.3	2.8	358.6	1.7
June	129.7		110.8		158.9		399.4		360.5	
July	130.2		111.6		160.2		402.0		362.5	
August	130.1	2.0	112.5	8.9	160.9	10.3	403.5	7.1	363.2	5.9
September	130.6		113.5		162.3		406.4		365.1	
October	131.0		113.9		164.1		409.0		366.8	
November	131.5	3.6	114.4	6.4	165.7	11.5	411.6	7.5	368.8	5.5
December	131.9		114.6		166.9		413.4		369.8	
January 1992	132.5		115.3		168.5		416.3		371.7	
February	132.9	4.7	115.9	6.0	169.8	10.1	418.6	7.2	373.1	5.1
March	133.6		116.7		170.5		420.8		374.4	
Chng Mar(92)/Mar(91)		3.0		7.5		10.5		7.2		5.4
Chng Mar(91)/Mar(90)		-7.7		-1.2		-25.8		-14.1		-14.7

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	391.5		129.46		38.55		33.57	
November	392.0	0.4	116.32	-14.1	32.73	19.3	33.92	0.1
December	388.8		120.22		38.56		32.72	
January 1991	388.4		117.79		33.96		31.72	
February	388.5	-2.1	117.46	-13.9	33.71	-29.5	32.22	-14.4
March	389.1 *		117.27 *		32.98 *		32.44 *	
April	390.1		118.23		32.56		32.39	
May	391.8	3.0	117.46	0.2	31.88	-15.9	32.23	0.4
June	392.8		116.97		31.95		31.85	
July	394.2		116.97		32.23		31.89	
August	395.7	4.4	116.93	-2.1	32.17	1.1	32.14	0.1
September	397.6		116.85		32.26		32.47	
October	398.6		116.85		32.54		32.43	
November	399.9	4.2	118.43	1.4	32.73	6.6	32.64	5.0
December	401.3		116.69		32.95		32.61	
January 1992	403.0		118.49		32.91		32.78	
February	404.8	4.9	117.93	3.1	33.14	5.2	32.95	4.0
March	406.5		118.26		33.42		32.91	
Chng Mar(92)/Mar(91)		4.5		0.8		1.3		1.4
Chng Mar(91)/Mar(90)		0.8		-8.1		-5.2		-1.3

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	814.3		8.77		109.9		83.0	
November	816.1	-0.3	9.23	4.2	108.3	-7.4	81.6	-10.4
December	811.0		8.80		107.2		80.5	
January 1991	814.4		8.20		106.6		79.9	
February	816.7 *	1.5	8.54	-20.7	105.7	-9.0	79.1	-11.5
March	819.4		8.55 *		105.5 *		78.7 *	
April	822.0		8.61		105.7		78.7	
May	824.6	3.9	8.56	8.5	105.9	-0.9	78.6	-4.0
June	827.3		8.64		105.5		78.0	
July	830.6		8.61		106.0		78.3	
August	834.1	4.8	8.39	-4.9	106.3	2.8	78.4	0.5
September	838.3		8.49		107.0		78.9	
October	841.6		8.43		107.3		79.0	
November	845.2	5.4	8.57	4.3	107.5	4.2	79.0	2.4
December	849.3		8.76		107.8		79.0	
January 1992	852.5		8.63		108.1		79.1	
February	855.9	5.1	8.61	1.2	108.4	3.5	79.2	1.4
March	859.4		8.60		108.9		79.5	
Chng Mar(92)/Mar(91)		4.9		0.6		3.2		1.0
Chng Mar(91)/Mar(90)		2.0		-1.5		-3.1		-5.4

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	133.3		122.2		121.3		132.8	
November	133.7	6.9	122.8	11.3	120.6	16.1	133.1	2.8
December	134.1		122.1		118.9		133.3	
January 1991	134.6		121.9		119.3		134.0	
February	134.8	3.7	121.2	-2.8	117.2	-8.3	134.5	4.5
March	135.3 *		121.4 *		116.6 *		135.1	
April	135.6		121.6		116.8		135.4	
May	136.0	3.2	121.8	1.1	117.2	-1.8	135.7	3.7
June	136.3		122.1		117.5		136.1	
July	136.7		122.3		117.8		136.6	
August	137.1	3.4	122.5	2.1	117.9	0.3	137.0	3.7
September	137.5		122.7		116.1		137.4	
October	138.0		122.9		118.3		137.8	
November	138.4	3.7	123.3	2.4	118.7	4.7	138.4	3.8
December	138.8		123.4		118.9		138.7	
January 1992	139.2		123.6		119.2		139.1	
February	139.6	3.6	123.9	2.1	119.6	3.3	139.7	3.9
March	140.0		124.1		120.0		140.1	
Chng Mar(92)/Mar(91)		3.5		2.2		2.9		3.7
Chng Mar(91)/Mar(90)		5.1		3.6		3.0		4.0

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	139.1		112.9		134.6		150.2		110.7	
November	139.4	7.1	112.7	1.6	135.0	11.0	150.6	5.4	110.6	-1.0
December	139.5		112.6		135.2		150.4		110.5	
January 1991	140.1		112.5		135.3		151.2		110.4	
February	140.4	3.2	113.4	1.5	135.2	0.9	151.8	3.9	110.5	-0.5
March	140.8 *		113.6 *		135.2 *		152.5 *		110.5 *	
April	141.2		113.7		135.5		153.0		110.7	
May	141.5	3.2	113.8	2.4	135.7	1.5	153.5	4.5	110.8	1.1
June	141.9		114.0		136.0		154.0		110.8	
July	142.3		114.2		136.2		154.6		110.9	
August	142.8	3.4	114.4	1.9	136.5	2.3	155.2	4.5	111.1	1.2
September	143.2		114.5		136.8		155.8		111.3	
October	143.6		114.7		137.1		156.4		111.5	
November	144.1	3.7	114.9	1.8	137.5	2.9	157.0	4.7	111.6	1.9
December	144.5		115.0		137.8		157.6		111.8	
January 1992	144.9		115.2		138.0		158.2		112.0	
February	145.3	3.6	115.4	1.8	138.3	2.4	158.8	4.8	112.2	2.0
March	145.8		115.5		138.6		159.5		112.4	
Chng Mar(92)/Mar(91)		3.5		1.7		2.5		4.6		1.7
Chng Mar(92)/Mar(91)		4.6		1.0		4.8		4.7		0.6

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
October	-10.99		141.5		5542		4173		-21.7
November	-8.91	-25.8	139.9	-4.4	5532	0.9	4155	-1.6	-16.2
December	-6.28		139.7		5499		4127		-11.3
January 1991	-7.00		139.0		5534		4129		-6.7
February	-7.17 *	55.4	140.5 *	0.5	5547	1.6	4125	-2.7	-3.7
March	-7.23		142.1		5559		4115		-3.4
April	-6.95		142.5		5588		4127		-1.8
May	-6.76	21.6	142.2	5.7	5605	4.2	4130	0.6	-3.6
June	-6.43		142.8		5620		4131		-6.7
July	-6.27		143.2		5660		4144		-9.5
August	-6.51	12.8	143.4	2.6	5697	7.1	4158	3.3	-10.8
September	-6.68		143.7		5749		4185		-11.4
October	-6.53		143.4		5764		4184		-10.6
November	-6.27	8.9	143.8	1.0	5799	7.1	4192	3.1	-10.8
December	-6.21		144.2		5838		4209		-12.4
January 1992	-6.46		144.6		5852		4207		-12.9
February	-6.28	0.4	144.9	3.1	5886	5.9	4214	1.9	-13.7
March	-6.25		145.2		5914		4222		-14.2
Chng Mar(92)/Mar(91)		13.6		2.2		6.4		2.6	
Chng Mar(91)/Mar(90)		17.5		-2.3		5.0		-0.7	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	83.43		163.4		8.86		168.05	
November	82.12	-19.0	168.2	11.1	8.50	-11.4	172.21	-21.1
December	83.35		165.3		8.24		179.57	
January 1991	83.51		163.9		8.27		177.95	
February	82.12	3.1	160.7	-9.1	8.03	-15.3	197.75	49.5
March	85.17 *		160.5		8.26 *		199.10 *	
April	85.98		161.7		8.14		205.51	
May	85.53	11.5	161.2	0.3	8.02	-5.6	206.82	36.9
June	86.21		162.6		8.05		209.43	
July	85.76		161.7		8.09		206.24	
August	84.71	-6.0	161.5	2.2	8.07	1.2	203.94	-5.2
September	83.27		164.9		8.12		203.40	
October	83.84		164.8		8.16		203.66	
November	84.46	-0.7	166.7	10.0	8.22	6.2	206.04	2.8
December	84.97		168.4		8.27		208.11	
January 1992	85.59		169.8		8.32		210.18	
February	86.64	9.2	169.6	7.2	8.35	7.0	211.72	9.4
March	86.67		169.1		8.40		209.94	
Chng Mar(92)/Mar(91)		1.8		5.4		1.7		5.4
Chng Mar(91)/Mar(90)		-9.5		-2.4		-3.5		8.4

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	318.0		821.2		3325.2		8.11		7.16	
November	320.0	9.5	823.3	4.4	3325.8	3.2	7.83	-4.0	7.05	-16.3
December	322.0		825.4		3330.5		7.31		6.70	
January 1991	326.9		826.7		3333.4		6.91		6.28	
February	332.2	14.9	836.4	5.5	3357.3	3.4	6.25	-53.1	6.20	-35.6
March	334.9 *		840.3 *		3375.2 *		6.08 *		6.25 *	
April	337.1		844.5		3391.6		5.82		6.11	
May	339.6	10.2	847.9	6.6	3408.4	6.4	5.83	-31.4	5.96	-12.6
June	341.7		851.2		3423.5		5.86		6.04	
July	343.8		854.3		3440.8		5.95		6.17	
August	345.9	7.9	857.8	4.6	3457.5	5.9	5.93	10.4	6.23	13.2
September	348.2		860.5		3472.8		6.07		6.28	
October	350.3		864.3		3490.3		6.12		6.25	
November	352.7	7.9	867.8	4.7	3506.7	5.9	6.17	13.1	6.29	3.9
December	354.8		870.2		3522.8		6.22		6.32	
January 1992	356.2		873.5		3538.4		6.21		6.36	
February	358.5	6.7	876.1	4.1	3553.7	5.5	6.28	7.3	6.41	7.6
March	360.4		879.0		3570.6		6.35		6.44	
Chng Mar(92)/Mar(91)		7.6		4.6		5.8		4.4		3.0
Chng Mar(91)/Mar(90)		10.4		4.4		3.2		-26.6		-20.4

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	9.53		7.49		7.98		8.06		10.00	
November	9.31	-4.5	7.16	-3.6	7.85	-3.3	7.98	-4.4	10.00	0.0
December	9.05		7.09		7.80		7.82		10.00	
January 1991	9.04		7.08		7.10		7.17		9.52	
February	8.83	-15.1	6.91	-11.9	6.49	-48.0	6.60	-47.4	9.05	-28.7
March	8.90 *		7.07 *		6.48 *		6.55 *		9.00 *	
April	8.73		6.97		6.22		6.39		8.78	
May	8.61	-11.8	6.88	-6.7	6.17	-28.3	6.28	-25.9	8.50	-23.5
June	8.60		6.85		6.08		6.18		8.50	
July	8.68		6.93		6.12		6.21		8.50	
August	8.73	3.9	6.98	4.9	6.11	-0.6	6.22	-3.8	8.50	-4.3
September	8.78		7.04		6.21		6.24		8.50	
October	8.89		7.13		6.26		6.31		8.50	
November	9.02	12.3	7.25	14.3	6.31	10.6	6.38	10.0	8.50	0.0
December	9.05		7.28		6.34		6.43		8.50	
January 1992	9.12		7.35		6.35		6.55		8.79	
February	9.12	9.4	7.37	11.7	6.39	5.6	6.59	13.2	9.00	21.8
March	9.33		7.55		6.43		6.58		9.00	
Chng Mar(92)/Mar(91)		4.8		6.8		-0.8		0.5		0.0
Chng Mar(91)/Mar(90)		-5.0		-3.0		-21.7		-21.6		-10.0

PROJ includes current information until the * and then projections by month thereafter
ARX is the annualized percentage change from the previous quarter.

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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
April 1991

Dr. Donald Ratajczak, Director
For Release: Friday, May 3, 1991

PUSHING ON A STRING?

As April ended, evidence of any upturn in economic activity remained scarce. Initial unemployment claims were 500,000 in the latest week, near the high for the recession. Clearly, employment continues to fall by nearly 50,000 per week. Auto sales remain depressed at 6 million domestic units for April while sensitive prices remain trendless. Even money growth has slowed again as the Federal Reserve preserved federal funds rates at 6% for more than a month. This normally suggests that the growth in demand for money is slowing.

To be sure, the leading indicators rose for the second consecutive month, but only four indicators were up while 7 were down. Rising consumer confidence and stock market prices (which are highly correlated) accounted for most of the gain. Also, housing permits have risen for two months, while sales of new single and existing homes rose modestly in February. This may be the harbinger of a recovery down the road, but activity clearly has not yet rebounded.

Furthermore, some danger signs are developing that the downturn could turn worse. Not only did manufacturing shipments fall 1.8% in March, but orders now are trailing shipments by $2 billion. Thus, backlogs are shrinking, suggesting that further production cutbacks in manufacturing are likely. With capacity utilization at 78.5%, order cancellations could develop. This would propel fixed investment down again, following the sharp declines in the first quarter. Consumer sentiment has eased slightly in April following the euphoria right after the Persian Gulf conflict. In addition, the strong dollar since February and slowing growth of activity abroad put the improvements in our trade balances at risk.

Clearly, these factors explain why the Federal Reserve moved to reduce the discount rate and lower the federal funds rate further at the end of April. Now the question is whether the Fed is pushing on a string.
Interest rates have declined 2.5% as measured by the federal funds rate prior to this move. Moreover, the last two easing moves were met with rising long-term interest rates. Such less than stellar response to monetary ease has raised questions about whether further ease will continue to be ineffective.

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Such questions are not valid. When long-term interest rates rose following the last two easing moves by the Federal Reserve, money growth was accelerating. Also, some inflation measures were intensifying. Although the recession still was intensive, these factors suggested that more inflation rather than more employment would be the result of Federal Reserve easing. However, money growth has slowed following possibly seasonally distorted increases in February that spilled into March. While that spurt in money growth remains a mystery, sharp increases in currency demand suggests that international use of the dollar has sharply increased. Therefore, the increased dollar demand reflected international transactions needs rather than domestic requirements. In addition, the surge in inflation was mostly induced by government policies. Rising excise taxes for tobacco, alcoholic beverages, and luxury items added a tenth to the January inflation rate. Changing government fees, from postage to toll rates, raised another 1.5 percentage points. Higher sales taxes and rising property taxes also added more than 0.2 percentage points to inflation excluding food and energy in the first two months of 1991. When all the factors induced by government policy are excluded, half the change in core inflation was government mandated. Thus, the inflationary surge was nothing more than a one time government policy change.

Indeed, if the Fed eased earlier, more economic growth but no more inflation would have developed. Indeed, the absence of ease aided the surge in the dollar's value in recent weeks. This dollar surge has threatened the economic recovery because of the reduced competitiveness of American producers.

One other factor leading to monetary impotency was the use of reduced interest rates by banks to widen their interest rate spreads. While federal funds rates were falling 2.5 percentage points, the prime rate dipped only 1 percent. This improved earning potential at banks will aid the accumulation of capital and should eventually raise the capacity to issue loans. However, this is a long process that might have little immediate impact upon increased loan activity. The mortgage market, where bank lending does not determine the effective rates, did respond to the reduced interest rates. Some corporations also experienced lower financing costs. However, most borrowers saw only limited price reduction on borrowing from the Federal Reserve's interest rate initiatives. Without any pricing signals, no change in behavior should be expected. This is especially so as the criteria for obtaining loans or increasing credit lines is being tightened even as interest rates are falling.

The latest Federal Reserve initiative has reduced bank prime rates as well as federal funds rates. This should have more immediate impact upon the cost of capital to bank borrowers. Moreover, long-term interest rates have drifted down following this change, suggesting that monetary scarcity rather than excess is of greatest concern to the credit markets. Therefore, this activity should be more successful in beginning to stimulate the economy than earlier initiatives.

Will this change be enough? If interest rates fall, the dollar declines, and inflation remains subdued, no further reductions in interest rates may be necessary to start the economy. Of course, they are a lot of ifs. However, further declines in short-term interest rates will become increasingly difficult as the federal funds rate falls below interest rates paid to core checking and saving account depositors. Certainly, those interest rates also could fall, but such an action almost certainly would generate defections from those accounts, which normally are among the more profitable at banks. As those deposits flee, they may discover alternatives that remain more appealing. In other words, further significant declines in interest rates would further erode the competitive position of the banking industry. For that reason, no further decline in the discount rate is expected. However, a further decline in federal funds rates to 5.5% certainly could occur in the weeks ahead if the economy remains sluggish.

Monthly Statistical Highlights

	APRIL 1991	MAY 1991	JUNE 1991
Payroll Employment	-14.000	44,000	43,000
Index of Hours Worked	0.0	0.1%	0.2%
Household Employment	-27,000	38,000	38,000
Civilian Unemployment Rate	6.8%	6.9%	6.9%
Personal Income	0.3%	0.5%	0.5%
Savings Rate	4.0%	4.0%	3.9%
Personal Consumption	0.0%	0.5%	0.5%
Retail Sales	0.0%	0.4%	0.5%
Auto Sales	8.5*	8.5*	8.6*
Housing Starts	5.1%	1.0%	1.4%
Housing Permits	0.9%	-1.7%	1.9%
Construction Expenditures	1.2%	-0.1%	0.9%
Business Inventories	0.3%	0.3%	0.3%
Orders for Durable Goods	1.7%	1.7%	0.3%
Orders - Nondefense Capital Goods	3.5	1.5%	1.2%
Industrial Production	-0.3%	0.4%	0.2%
CPI	0.2%	0.4%	0.3%
PPI	-0.2%	0.4%	0.2%
Consumption Deflator	0.3%	0.4%	0.3%
Leading Indicators	0.4%	-0.1%	0.4%
Currency Index	1.5%	0.2%	-1.1%
Equity Index	2.1%	1.0%	0.4%
Real GNP (annual rate)	-0.3%	-1.2%	2.7%
M1 (annual rate)	4.5%	3.8%	4.9%
M2 (annual rate)	4.2%	8.3%	3.5%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Initial claims continue to indicate that the recession remains in place. The latest claims, at 500,000, suggests that employment continues to fall nearly 50,000 per week. The unemployment rate continues to drift up as well. The index of hours worked continues to fall more sharply than economic activity, suggesting more vigorous cost cutting than in previous recessions. As a result, inflationary pressures are moderating as measured by unit labor costs. Also, profits are higher than otherwise would have prevailed. The sharp decline in the workweek for March suggests that further declines in employment will persist in the months ahead. Although hourly earnings increased in March, the gains reflected reductions in high wage jobs rather than any acceleration of labor costs. For the quarter, hourly earnings rose a modest 2.5%. The employment cost index slowed to a 4.6% gain in the first quarter from previous year levels. This compares to gains of 4.9% in the previous quarter and 5.5% in the first quarter of the previous year. Thus, the fear of rising inflation remains unjustified in the labor markets.

Even if the hours worked have stabilized, as currently projected, the rate of descent has been so sharp that a decline is expected for the second quarter. This suggests that economic activity also will decline for that quarter. While improvement in all employment categories is projected, no assurances of such improvement are yet developing.

PERSONAL INCOME AND OUTLAYS-The weakness in employment clearly is reflected in wage income. Government and service payrolls offset declines in distribution and goods production to generate modest gains for March. For the quarter, however, wages grew more slowly than in the fourth quarter. Strong farm subsidies, especially in March, added to personal income for the quarter, although property income, especially interest earnings is now falling. Normally, an increase in farm subsidies leads to gains in savings. This time, however, the lost income was so substantial that savings fell, reaching a low 3.7% in March. Improving consumer sentiment may generate the reduction in savings currently projected for the spring. However, such gains are far from assured. Some rebuilding of savings is anticipated once the recovery begins. This will prevent any substantial rebound in consumer spending and lead to a very modest recovery.

Despite price declines for nondurables in March, purchases of nondurables after inflation continued to decline. This might be the result of faulty seasonal factors associated with Easter. If so, some gains in nondurable expenditures after inflation adjustment should be expected in April. Of course, the reduced price increases led to more restrained declines in real nondurable expenditures during the quarter. However, little evidence of a change in consumer spending exists. Durable goods fell about as much in the winter as during the fall. The gain in nondurables is no more than expected by the price changes alone, while the acceleration in services purchases reflects increased utility consumption and purchases of financial services as the stock market volume soared during the month. More modest increases in services expenditures should be expected in April. Nevertheless, some gains in consumption are likely in the spring merely because the collapse in spending during the CNN effect in January will not be duplicated in the second quarter. A return to more sluggish spending patterns is possible during the summer, especially as income growth remains soft. However, modest gains currently are projected for all consumer sectors by summer.

The March decline in retail sales is less disturbing than normal because of the problems associated with the Easter seasonal and the upward revision in activity in February. However, auto sales remain sluggish in April. The sharp second quarter gains merely remove the dismal January performance. Only modest gains in auto sales are likely this year because of restrained household income. Some distortions in auto sales may be developing because of changes in the rental fleet's holding period for autos. Previously, the wholesale prices received by rental companies allowed them to release the cars to the used car market within six months of their receipt. This undercut the new car market for households, who entered the used car market to take advantage of these bargains. Because of the sharp auto depreciation, the result was reduced household purchases of cars but increased purchases of autos for investment purposes. The result was a more dramatic in units sold than in value of units purchased. This pattern now should reverse as fleets are being asked to retain their cars for a longer period or lose some of their special market arrangements. Until these conditions have been resolved, little correlation is expected between unit auto sales and the value of auto sales in the retail sales report.

CONSTRUCTION-The good news is that housing permits have stopped falling. The bad news is that the remainder of the construction sector remains unusually weak. During the first quarter, the Dodge data on construction orders was 22% below previous year levels. Furthermore, weakness continued through March. This suggests that no rebound in construction expenditures may develop until next year. However, the improvement in permits suggests that increased housing activity is on the horizon. Sales of single family homes increased modestly in March. Resale homes also showed a modest rebound of 0.6% while housing prices appeared to stabilize except in the Northeast and West. Therefore, a rebound in single family housing activity followed by some bounce in multi-family activity from unusually low levels in March is projected. The sharp percentage increases merely reflect how small activity has become.

In addition to residential activity, public construction should rebound in the spring, although budget problems remain intense. Although the last decline may fall in March, no concerted rebound is expected before June. Lingering weakness in nonresidential construction along with modest fluctuations in public construction account for this continued sluggishness. Construction costs should begin rising, but no dramatic acceleration of construction based inflation is likely during the next year.

BUSINESS ACTIVITY-Manufacturing inventories continue to fall. In March, they slipped by an additional 0.7%, probably requiring a downward revision in the GNP estimates. Of course, price declines accounted for some of that slippage, but inventories are still contracting. The big first quarter shock was the collapse in durable goods orders. As a result, shipments fell sharply, leading to a huge drop in fixed investment. With orders currently trailing shipments, further declines in activity are likely during the spring. Some of the collapse in nondefense capital goods orders reflects reduced commercial aircraft and auto orders. However, weakness was widespread. Moreover, no early orders rebound is expected in those sectors. Indeed, our estimates of a rebound in this sector may be too early.

Now that the war is over, defense shipments also have deteriorated. Further modest declines are likely for the remainder of this year. With such weakness in durables activity, further declines are likely for industrial production and capacity utilization. Our greatest concern at this time is cumulative weakness in the industrial sector that will prevent consumers from gaining the purchasing power needed to stimulate economic activity. Although industrial production appears to have slowed its descent that is misleading. February was unusually mild while March was more normal. Therefore, utility production subtracted 0.2% from February and added more than 0.1% to March production. Excluding these effects, industrial production only improved from a 0.6% decline in February to slightly less than 0.5% drop in March. Certainly, the freefall has ended, but the industrial sector clearly is weakening. The NAPM survey showing 42.1% for their index also shows that the freefall is over but the recession remains.

PRICES-Falling energy prices aided the price indices during the first quarter. Core inflation accelerated, but half the change in core inflation appears to be caused by changes in excise taxes on tobacco, alcoholic beverages, and luxury cars; government fees such as tolls and postal charges; sales taxes; and property taxes. Excluding these forces, core inflation would have drifted down slightly during the quarter. Moreover, the modest increase in wage costs both because of slowing wage increases and rising productivity during a recession (a truly rare occurrence) suggests that some relief in inflation is likely soon.

Unfortunately, the GNP deflator was incapable of showing the true direction of inflation. The bias is caused by subtracting the price impact of imports under the assumption that those prices also are reflected in the spending sectors such as consumption, investment and government purchases. Consumer prices do reflect those import prices and showed an appropriate slowing. However, investment and government purchases are deflated by producer prices, a domestic price index. Therefore, not all the import price changes are reflected in the other sectors during the quarter in which they are subtracted. Thus, when import prices are rising, as they were during the fourth quarter, the GNP deflator is understated. This is also true of the fixed weighted index but not the index for domestic purchasers (which rose 6.3% in the fall). When import prices fall, as they did in the winter, then the deflator is too high. Again, the index for domestic purchasers provides a more accurate measure of true inflation by rising only 3.6% during the winter.

One stronger inflationary force than currently projected could be caused by the denial to sell winter gasoline after May 1 until the next winter arrives. This has caused a substantial reduction in gasoline inventories and raised the cost of producing summer fuels, which require about 5% more oil. Therefore, gasoline prices could soar this spring, leading to larger price increases for nondurables than currently projected. If so, economic activity will be weaker in the spring than currently forecast.

MISCELLANEOUS-The unusual dip in our merchandise trade deficit during February cannot be sustained. Weak economic activity at home, a weak dollar, and unusually low imports of oil at low prices accounted for much of the improvement. Unfortunately, exports also fell. With the dollar rallying sharply, the cost competitiveness of American producers has eroded. Already, orders for machine tools from abroad have fallen sharply in March, suggesting that further declines in exports will be accompanied by some rebound in imports.

The dollar's rebound is partially by default, as German problems have undermined confidence in the mark. Also, concerns about slowing in Japan's economy have prevented any shift to that currency. However, the surge in the dollar also reflects the payments of war pledges along with the drop in our trade deficit. We may have experienced a current account surplus in February and certainly will show only a small deficit for the quarter. However, the current account will deteriorate in subsequent quarters as the pledges are paid. Thus, the dollar should fall from current levels, although a major decline is unlikely because of the default issue. Nevertheless, the end of further dollar increases probably will prevent any serious deterioration in our trade balances as the U.S. rebounds, Europe swoons, and Asia slows.

The adjusted profits were too good to be true for the fourth quarter. Nevertheless, sharp cost cutting along with reduced inventory profits has marginally raised the quality of profits in the winter. Some back sliding is expected as inflation reappears during the second quarter. Even so, adjusted profits are showing a remarkably stable response to the recession. This partially explains the surprising stock market values, which will be discussed later.

Although the leading indicators are beginning to improve, the breadth of improvement remains disappointing. In March, stock prices, consumer sentiment, money stock and building permits accounted for the increases while all the orders, labor market, and pricing indicators were lower. Clearly, some improvement in the breadth of these indicators will be needed before a rebound is signalled. Even with two months of gains, the indicators show no change for the quarter. While the indicators lead by much less during economic troughs, this suggests that the second quarter probably will be negative.

Our GNP estimates show the economy declining through May. If so, the recovery will begin in June. Clearly, the speed of decline has slowed. The largest drop occurred in January as everyone stopped to see the war. Downward drift has been occurring since then. Only a modest rebound is projected, with economic activity expanding only 2.3% in the next twelve months. This is an anemic recovery, but the overhang of construction, the slippage in backlogs, and the overhang of debt provides no other likely outcome.

FINANCIAL MARKETS

Despite the inflationary fears that surfaced with the distorted inflation indices for the first quarter, long-term interest rates were able to fall during the recession. Part of this probably represented a response to the increased liquidity revealed by lower short-term interest rates. However, a substantial portion of the weakness reflects changes in the savings behavior of corporations. The sharp drop in fixed investment along with little change in corporate profitability substantially reduced the borrowing needs of the corporations. To be sure, they sought substantial long-term borrowings to improve their balance sheets, but net corporate savings rose substantially during the winter. Further declines in fixed investment and in inventory investment are likely in the spring. However, cash flow should not be so favorable. During the second half of the year, net corporate savings should deteriorate despite rising profitability as inventory liquidation ends and fixed investment stabilizes.

By that time, the government sector may also be easing borrowing needs following a burst of borrowing activity in the spring. Reduced economic activity has substantially reduced revenues at the federal and state levels. Although government spending is not rising sharply, borrowing should remain intense until the fall. Of course, state and local governments will be trying to improve their budget positions, leading to further reductions in total government borrowing needs.

The household sector will struggle to raise savings and will increase house financing as the year progresses. The net result should be modest declines in net savings during the year. However, most of this erosion should occur after the spring.

International investors may avoid American assets following the dollar's surge in the past two months. Of course, they are currently shifting funds into the United States to gain further returns from a strong stock market and any further currency gains that may materialize. However, this capital inflow should subside by late spring.

When all the sectors are combined, corporate savings should dictate interest rates through the spring. Then household reductions in net savings plus international reluctance to invest in the United States for low returns during the latter half of this year should stabilize rates.

Short-term rates probably will fall no further, although a further quarter point reduction in the federal funds rate is possible. Only sustained weakness would lead to a further reduction in the discount rate. At 5.5%, the rate is close to the interest rate paid by banks for core deposits. As these rates are not that sensitive, further declines in the discount rate could begin undermining the strength of banks. Certainly, such action is not desirable.

EQUITY MARKETS-The stock market is early but not wrong. Following the dramatic surge through April, market values should fluctuate in a narrow range for the remainder of this year. A breakout above 3000 on the Dow is possible as interest rates fall in late spring. However, not enough currency and profit support will be available to sustain such lofty levels at this time. A late summer stall is likely, but no serious drop in stock values is projected. At this point, the 3.9% gain in price from March levels during the next twelve months along with the 3.5% dividend yield suggests that stocks will provide only modest returns. However, alternative investments also provide only single digit price gains. Thus, selectivity of issues is needed.

Cyclical stocks have soared and sagged. They are due for another rebound during the fall. Interest sensitive issues such as home builders, building materials, utilities and financials should do well in the spring and then become tired late in the year.

The technology stocks are stalled by the rebound of the dollar and the sluggish spending by corporations. However, the dollar should cease being a drag during the summer while the corporations will spend by the fall. Thus, technology stocks should come back with the cyclicals.

Consumer and retail stocks should continue to underperform the market with the exception of food stores, which have dramatically improved their margins this spring. Manufacturers of consumer goods, including toys also should do poorly until late in the year.

Thus, while little direction is expected for the overall market, several interesting undercurrents remain to be explored.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
October	110432		123.1		117733		5.7	10.12	
November	110165	-1.7	123.4	-4.4	117386	-0.9	5.9	10.14	2.1
December	110004		124.0		117574		6.1	10.19	
January 1991	109813		121.8		116922		6.2	10.19	
February	109522	-2.3	122.1	-5.6	116918	-2.4	6.5	10.20	2.5
March	109316		121.3		116754		6.8	10.25	
April	109302 *		121.3 *		116727 *		6.8 *	10.27 *	
May	109346	-0.7	121.4	-1.0	116765	-0.3	6.9	10.30	3.4
June	109389		121.6		116803		6.9	10.33	
July	109432		121.7		116858		7.0	10.36	
August	109485	0.5	121.8	1.3	116930	0.5	7.0	10.40	3.8
September	109542		122.0		116986		7.1	10.43	
October	109605		122.1		117053		7.1	10.47	
November	109665	0.7	122.2	1.3	117142	0.7	7.1	10.51	4.2
December	109723		122.4		117216		7.2	10.53	
January 1992	109809		122.4		117294		7.2	10.56	
February	109884	0.8	122.6	1.1	117353	0.7	7.1	10.60	3.6
March	109957		122.7		117413		7.1	10.63	
Chng Mar(92)/Mar(91)		0.6		1.2		0.6	0.9 #		3.7
Chng Mar(91)/Mar(90)		-0.7		-2.5		-1.3	0.4 #		3.2

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	4.696		2.732		152.5		3.982		3.830	
November	4.716	3.5	2.732	0.8	166.1	-9.7	4.001	3.2	3.835	3.9
December	4.743		2.754		183.9		4.022		3.839	
January 1991	4.725		2.740		188.8		4.007		3.818	
February	4.734	1.4	2.740	0.3	160.9	-3.6	4.017	1.5	3.856	1.7
March	4.746		2.744		148.2		4.027		3.879	
April	4.762 *		2.750 *		159.9 *		4.040 *		3.880 *	
May	4.785	4.3	2.763	3.2	161.5	-11.8	4.059	4.3	3.898	5.0
June	4.808		2.776		161.1		4.079		3.918	
July	4.831		2.789		162.2		4.097		3.935	
August	4.855	6.0	2.803	5.9	167.0	12.4	4.118	5.9	3.951	5.7
September	4.879		2.817		167.5		4.139		3.971	
October	4.904		2.832		173.0		4.161		3.988	
November	4.928	6.1	2.847	6.2	170.5	11.6	4.180	6.1	4.010	5.9
December	4.949		2.858		167.2		4.197		4.030	
January 1992	4.968		2.868		167.0		4.216		4.049	
February	4.994	5.5	2.884	5.4	172.2	0.6	4.239	5.7	4.067	5.6
March	5.017		2.897		172.2		4.258		4.086	
Chng Mar(92)/Mar(91)		5.7		5.6		16.2		5.7		5.3
Chng Mar(91)/Mar(90)		3.3		2.8		-29.1		2.8		4.6

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ARX is the annualized percentage change from the previous quarter.
# is the percentage change in the labor force

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	3720.5		474.6		1216.2		2029.8		2675.6	
November	3725.6	4.0	468.7	-10.1	1219.3	3.7	2037.6	7.0	2672.3	-3.4
December	3728.7		462.2		1212.5		2053.9		2672.8	
January 1991	3708.3		441.4		1205.9		2061.1		2646.0	
February	3746.1	1.8	460.9	-9.6	1215.6	-2.0	2069.5	6.8	2666.1	-1.4
March	3769.0		468.1		1208.0		2092.9		2680.3	
April	3769.9 *		464.3 *		1214.0 *		2091.6 *		2674.4 *	
May	3787.9	5.2	466.0	8.5	1218.5	3.0	2103.4	5.7	2677.7	2.2
June	3807.7		468.3		1223.7		2115.7		2683.7	
July	3825.1		471.3		1226.3		2127.4		2688.5	
August	3840.7	5.8	472.2	6.0	1229.9	3.8	2138.5	6.9	2691.7	2.1
September	3861.0		475.5		1234.0		2151.4		2697.9	
October	3876.9		477.6		1236.2		2163.2		2700.8	
November	3899.1	6.0	483.0	8.3	1241.5	3.5	2174.6	6.9	2708.0	2.2
December	3918.8		487.1		1244.9		2186.8		2713.8	
January 1992	3938.1		489.2		1250.5		2198.4		2718.7	
February	3955.2	6.0	491.5	7.7	1252.6	4.1	2211.1	6.8	2722.2	2.3
March	3974.2		494.0		1256.8		2223.4		2727.2	
Chng Mar(92)/Mar(91)		5.4		5.5		4.0		6.2		1.8
Chng Mar(91)/Mar(90)		4.7		-3.0		2.5		8.0		0.3

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	151.75		22.57		9.3		97.69		31.49	
November	151.75	0.2	22.27	-5.1	8.7	-28.0	98.29	3.8	31.19	1.8
December	149.06		21.81		8.9		97.29		29.96	
January 1991	147.81		21.71		7.6		96.91		29.19	
February	150.82	-3.8	22.55	-0.3	8.3	-30.1	97.80	-2.0	30.47	-11.5
March	149.60		22.34		8.7		97.06		30.20	
April	149.54 *		22.25 *		8.5 *		97.43 *		29.86 *	
May	150.09	2.0	22.36	2.5	8.5	17.3	97.79	2.3	29.94	0.4
June	150.77		22.40		8.6		98.21		30.16	
July	151.32		22.47		8.7		98.42		30.43	
August	151.71	4.6	22.56	4.1	8.7	9.7	98.71	3.8	30.44	7.4
September	152.41		22.65		8.8		99.04		30.72	
October	152.81		22.72		8.5		99.21		30.88	
November	153.85	5.2	22.78	4.0	8.7	-1.5	99.64	3.5	31.43	11.6
December	154.58		22.85		8.9		99.91		31.82	
January 1992	155.27		22.89		9.0		100.36		32.02	
February	155.69	5.3	23.11	4.8	9.0	16.2	100.53	4.1	32.05	9.8
March	156.31		23.16		9.1		100.87		32.28	
Chng Mar(92)/Mar(91)		4.5		3.7		4.6		3.9		6.9
Chng Mar(91)/Mar(90)		-0.2		-3.6		-9.4		2.4		-5.6

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CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	1.026		0.839		0.187		0.920	
November	1.130	-26.8	0.769	-28.7	0.361	-19.0	0.906	-46.5
December	0.971		0.751		0.220		0.844	
January 1991	0.847		0.648		0.199		0.797	
February	0.993	-41.0	0.778	-30.0	0.215	-66.8	0.863	-17.6
March	0.901		0.732		0.169		0.884	
April	0.947 *		0.753 *		0.194 *		0.892 *	
May	0.956	20.5	0.761	25.3	0.195	4.2	0.876	19.7
June	0.969		0.769		0.200		0.893	
July	0.985		0.782		0.203		0.907	
August	0.987	16.7	0.785	14.8	0.202	24.4	0.921	17.1
September	1.013		0.796		0.217		0.940	
October	1.029		0.807		0.222		0.946	
November	1.035	18.4	0.815	15.2	0.220	31.4	0.952	14.8
December	1.050		0.826		0.224		0.967	
January 1992	1.061		0.831		0.230		0.972	
February	1.066	13.3	0.834	11.6	0.232	20.0	0.975	11.0
March	1.086		0.851		0.235		0.994	
Chng Mar(92)/Mar(91)		20.5		16.3		39.1		12.4
Chng Mar(91)/Mar(90)		-30.6		-25.9		-45.5		-28.2

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	134.8		110.8		174.6		420.2		379.6	
November	132.6	-21.1	113.9	9.8	169.3	-22.9	415.8	-13.4	375.9	-12.9
December	130.7		111.2		164.8		406.7		368.1	
January 1991	130.9		103.5		161.1		395.5		358.2	
February	130.3	-7.0	109.7	-15.8	155.3	-27.5	395.3	-18.1	357.7	-17.7
March	129.7 *		108.6 *		153.0 *		391.3 *		354.1 *	
April	129.5		109.4		157.2		396.1		357.9	
May	129.8	-1.9	110.3	11.3	155.7	2.0	395.8	3.1	357.2	2.0
June	129.7		110.8		158.8		399.3		360.4	
July	130.2		111.6		160.4		402.2		362.7	
August	130.1	2.0	112.5	8.9	161.7	11.7	404.3	7.7	363.9	6.4
September	130.6		113.5		162.8		406.9		365.6	
October	131.0		113.9		163.8		408.7		366.5	
November	131.5	3.6	114.4	6.4	164.8	8.3	410.7	6.3	368.0	4.2
December	131.9		114.6		166.1		412.6		369.0	
January 1992	132.5		115.3		167.0		414.8		370.4	
February	132.9	4.7	115.9	6.0	167.9	8.0	416.7	6.4	371.4	4.2
March	133.6		116.7		169.4		419.7		373.4	
Chng Mar(92)/Mar(91)		3.0		7.5		10.7		7.3		5.5
Chng Mar(91)/Mar(90)		-7.7		-1.2		-25.8		-14.1		-14.7

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	391.5		129.46		38.55		33.57	
November	392.0	0.4	116.32	-14.1	32.73	19.3	33.92	0.1
December	388.8		120.22		38.56		32.72	
January 1991	388.4		117.79		33.96		31.72	
February	388.5	-2.2	117.61	-20.4	33.79	-36.5	32.23	-16.7
March	388.9 *		110.30		30.30		31.79	
April	390.1		112.23 *		31.37		31.92 *	
May	391.4	2.9	114.18	-5.4	31.83	-10.3	31.67	-0.5
June	392.8		114.53		32.21		32.04	
July	394.2		115.57		32.23		32.08	
August	395.7	4.6	116.32	9.0	32.17	5.3	32.22	4.7
September	397.6		116.51		32.26		32.43	
October	398.6		116.45		32.54		32.47	
November	399.9	4.2	116.69	1.9	32.73	6.6	32.66	4.2
December	401.3		116.94		32.95		32.61	
January 1992	403.0		117.83		32.91		32.78	
February	404.8	4.9	119.07	6.6	33.14	5.2	32.95	3.7
March	406.5		118.82		33.42		32.91	
Chng Mar(92)/Mar(91)		4.5		7.2		10.3		3.5
Chng Mar(91)/Mar(90)		1.0		-15.4		-15.3		0.0

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	824.3		8.77		109.9		83.0	
November	826.1	-0.3	9.23	4.2	108.3	-7.4	81.6	-10.4
December	826.9		8.80		107.2		80.6	
January 1991	831.4		8.20		106.6		80.0	
February	829.8	2.3	8.52	-20.8	105.7	-9.2	79.1	-11.5
March	830.3 *		8.56		105.3		78.7	
April	832.7		8.61 *		105.0 *		78.2 *	
May	834.9	2.2	8.52	4.5	105.4	-2.0	78.3	-5.0
June	837.2		8.43		105.6		78.3	
July	840.6		8.52		105.8		78.2	
August	844.1	4.5	8.43	-3.1	106.3	3.6	78.5	1.0
September	847.8		8.41		106.7		78.7	
October	850.8		8.43		107.2		78.9	
November	854.5	5.0	8.55	4.0	107.6	5.1	79.0	2.7
December	858.4		8.63		108.0		79.1	
January 1992	861.7		8.56		108.3		79.2	
February	864.4	4.9	8.50	-1.1	108.6	3.6	79.3	1.2
March	868.3		8.48		108.8		79.2	
Chng Mar(92)/Mar(91)		4.6		-0.9		3.3		0.6
Chng Mar(91)/Mar(90)		2.6		-6.0		-3.3		-5.6

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PRICES

	CPI-U (seasonally adjusted) Proj	AR%	PPI Finished Goods (seasonally adjusted) Proj	AR%	PPI-Industrial Commodities (unadjusted) Proj	AR%	Estimated GNP Deflator Proj	AR%
October	133.4		122.3		121.3		132.8	
November	133.8	6.9	122.8	4.4	120.7	16.1	133.1	2.8
December	134.2		122.1		118.9		133.3	
January 1991	134.8		122.0		119.3		134.2	
February	135.1	3.5	121.3	-3.2	117.2	-9.4	134.9	5.5
March	135.0		120.9		115.6		135.4	
April	135.3 *		120.6 *		115.5 *		135.7	
May	135.8	2.4	121.1	-1.3	116.1	-4.2	136.2	3.9
June	136.2		121.4		116.7		136.5	
July	136.6		121.5		117.2		137.1	
August	137.0	3.6	121.7	2.5	117.5	2.1	137.4	3.9
September	137.4		122.0		115.4		137.8	
October	137.8		122.2		117.8		138.2	
November	138.2	3.7	122.5	2.4	118.1	4.9	138.8	3.8
December	138.6		122.7		118.4		139.2	
January 1992	139.1		123.0		118.7		139.6	
February	139.5	3.7	123.2	2.5	119.0	3.0	140.2	4.1
March	139.9		123.5		119.2		140.6	
Chng Mar(92)/Mar(91)		3.6		2.1		3.1		3.8
Chng Mar(91)/Mar(90)		4.9		3.1		2.1		4.2

	Consumption Deflator Proj	AR%	Consumer Durables Proj	AR%	Consumer Nondurables Proj	AR%	Consumer Services Proj	AR%	Implicit Construction Deflator Proj	AR%
October	139.1		112.9		134.6		150.2		110.7	
November	139.4	7.1	112.7	1.6	135.0	11.0	150.6	5.4	110.6	-1.0
December	139.5		112.6		135.2		150.4		110.5	
January 1991	140.1		112.4		135.4		151.2		110.4	
February	140.5	3.2	113.3	1.2	135.4	0.9	152.0	4.0	110.5	-0.5
March	140.6		113.5		134.9		152.5		110.5 *	
April	141.0 *		113.6 *		135.1 *		153.0 *		110.7	
May	141.5	2.9	113.8	2.6	135.7	1.2	153.5	4.3	110.8	1.1
June	141.9		114.0		136.1		154.0		110.8	
July	142.3		114.2		136.3		154.6		110.9	
August	142.7	3.6	114.4	2.1	136.5	2.7	155.2	4.5	111.1	1.2
September	143.1		114.6		136.8		155.8		111.3	
October	143.5		114.8		137.1		156.4		111.5	
November	144.0	3.7	115.0	2.1	137.5	2.8	157.0	4.7	111.6	1.9
December	144.4		115.2		137.8		157.6		111.8	
January 1992	144.9		115.5		138.1		158.2		112.0	
February	145.3	3.7	115.7	2.5	138.4	2.7	158.8	4.7	112.2	2.0
March	145.7		115.9		138.7		159.4		112.4	
Chng Mar(92)/Mar(91)		3.6		2.1		2.8		4.5		1.7
Chng Mar(91)/Mar(90)		4.4		1.0		4.5		4.7		0.6

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
October	-10.99		141.5		5520		4157		-21.7
November	-8.91	-25.8	139.9	-4.4	5527	0.9	4152	-1.6	-16.2
December	-6.28		139.7		5531		4151		-10.0
January 1991	-7.16		139.0		5544		4130		9.2
February	-5.33	71.5	140.5	0.1	5562	2.6	4123	-2.8	11.5
March	-6.64 *		141.7 *		5577		4118		11.7
April	-6.26		142.3		5588		4117		5.2
May	-6.76	-6.9	142.2	5.9	5601	3.2	4113	-0.6	-1.4
June	-6.43		142.8		5628		4122		-5.3
July	-6.27		143.2		5657		4127		-7.6
August	-6.51	-0.2	143.4	2.8	5679	5.5	4132	1.6	-9.9
September	-6.68		143.7		5708		4142		-11.5
October	-6.53		143.4		5733		4147		-12.3
November	-6.27	8.9	143.8	1.0	5782	6.9	4165	2.9	-10.7
December	-6.21		144.2		5815		4178		-11.1
January 1992	-6.46		144.6		5841		4184		-11.7
February	-6.28	0.4	144.9	3.1	5874	7.3	4189	3.1	-12.4
March	-6.25		145.2		5922		4212		-13.1
Chng Mar(92)/Mar(91)		5.9		2.5		6.2		2.3	
Chng Mar(91)/Mar(90)		20.7		-2.5		3.5		-0.6	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	83.43		160.9		8.86		168.05	
November	82.12	-19.0	163.5	2.0	8.50	-11.4	172.21	-21.1
December	83.35		162.8		8.24		179.57	
January 1991	83.51		161.5		8.27		177.95	
February	82.12	8.0	163.4	0.7	8.03	-14.9	197.75	54.2
March	88.12		163.1		8.29		203.57	
April	89.43 *		160.8		8.14 *		207.77 *	
May	89.62	23.9	158.2	-7.5	7.96	-8.8	209.94	38.6
June	88.67		159.7		7.93		210.86	
July	88.74		158.8		7.95		209.80	
August	88.96	-2.4	157.5	-2.1	8.07	1.8	205.87	-3.9
September	88.43		159.8		8.12		206.69	
October	88.92		159.3		8.16		206.59	
November	89.61	-1.3	162.2	8.3	8.22	8.7	210.95	0.7
December	86.74		164.3		8.27		205.91	
January 1992	86.67		166.1		8.32		207.15	
February	88.81	-1.0	165.7	10.1	8.35	7.0	211.46	4.4
March	89.12		165.9		8.40		211.60	
Chng Mar(92)/Mar(91)		1.1		1.7		1.3		3.9
Chng Mar(91)/Mar(90)		-6.4		-2.6		-3.5		9.3

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	318.0		821.2		3324.5		8.11		7.16	
November	320.0	9.5	823.3	4.4	3324.7	3.2	7.83	-4.0	7.05	-16.3
December	322.0		825.4		3329.8		7.31		6.70	
January 1991	326.8		826.7		3332.9		6.91		6.28	
February	332.8	14.9	836.4	5.9	3357.0	3.6	6.25	-52.7	6.20	-40.0
March	334.4		842.7		3378.3		6.12		5.92	
April	335.5 *		845.8 *		3390.0 *		5.96 *		5.83 *	
May	337.6	7.7	848.4	6.6	3412.6	6.4	5.74	-32.6	5.72	-21.9
June	339.4		852.2		3422.5		5.77		5.75	
July	341.0		853.9		3435.6		5.83		5.77	
August	342.7	6.2	856.8	4.0	3450.9	5.1	5.88	2.1	5.84	4.7
September	344.2		861.0		3465.6		5.85		5.89	
October	346.0		864.2		3481.2		6.02		5.96	
November	347.6	5.8	866.9	4.7	3496.7	5.4	6.07	16.4	5.99	11.9
December	349.0		870.1		3511.4		6.15		6.05	
January 1992	350.6		873.4		3526.8		6.12		6.14	
February	352.2	5.6	876.9	4.6	3541.4	5.3	6.18	6.3	6.22	14.5
March	354.0		880.0		3557.8		6.22		6.26	
Chng Mar(92)/Mar(91)		5.9		4.4		5.3		1.6		5.7
Chng Mar(91)/Mar(90)		10.2		4.7		3.3		-26.6		-20.4

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	9.53		7.49		7.98		8.06		10.00	
November	9.31	-4.5	7.16	-3.6	7.85	-3.3	7.98	-4.4	10.00	0.0
December	9.05		7.09		7.80		7.82		10.00	
January 1991	9.04		7.08		7.10		7.17		9.52	
February	8.83	-14.7	6.91	-11.4	6.49	-48.7	6.60	-48.4	9.05	-28.7
March	8.93		7.10		6.41		6.45		9.00	
April	8.73 *		6.97 *		5.98 *		6.07 *		9.00 *	
May	8.61	-12.2	6.88	-7.2	5.95	-37.3	6.05	-35.4	8.68	-18.7
June	8.60		6.85		5.87		6.01		8.50	
July	8.68		6.93		5.85		5.98		8.50	
August	8.73	3.9	6.98	4.9	5.89	-2.2	5.99	-2.6	8.50	-10.0
September	8.78		7.04		5.96		6.04		8.50	
October	8.89		7.13		6.02		6.11		8.50	
November	9.02	12.3	7.25	14.3	6.17	16.8	6.22	14.5	8.50	0.0
December	9.05		7.28		6.21		6.30		8.50	
January 1992	9.12		7.35		6.24		6.34		8.79	
February	9.12	7.5	7.37	9.4	6.28	10.6	6.37	12.1	9.00	21.8
March	9.21		7.43		6.35		6.46		9.00	
Chng Mar(92)/Mar(91)		3.1		4.6		-0.9		0.2		0.0
Chng Mar(91)/Mar(90)		-5.0		-3.0		-21.7		-21.6		-10.0

PROJ includes current information until the * and then projections by month thereafter
ARX is the annualized percentage change from the previous quarter.

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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
May 1991

Dr. Donald Ratajczak, Director
For Release: Monday, June 3, 1991

YES, THERE IS A RECOVERY; BUT IT IS WEAK

Just as the debate lingered over whether the economy had fallen into recession, substantial discussion will precede the declaration that the recession is over. This is especially true for this recession, because no engine of economic growth is apparent. While the Federal Reserve has abandoned tight monetary policy by allowing M2 to grow 5.1% in the second quarter according to our **PROJECTIONS**, claims of substantial reliquification clearly are overblown. The only shift in budgetary policy has developed from the absorption of excise tax increases at the beginning of this year. Indeed, further tax increases will restrain spending activity for higher income taxpayers subject to the $125,000 medicare tax later this year. Certainly, this is not a policy induced economic recovery.

The trade engine, which moderated the decline, is beginning to sputter. Exports fell slightly during the winter, but the recession caused imports to fall even more. However, exports showed some strength in March, the last available month. When the recovery begins, further gains in trade are not likely unless renewed export growth develops. Yet, Asia and Europe are slowing, and the growth in Latin America and Africa simply will not be sufficient to offset those declines (although they are regions in which the United States does well.) Furthermore, the dollar's rally since February has substantially reduced American competitiveness. Partially offsetting the currency shift is the continued cost-cutting in American manufacturing that is lowering unit labor costs. By contrast, Japan has accepted its largest wage increases in ten years during the latest Spring wage offensive, while labor problems are heating up in Germany. Even so, a moderate improvement in cost containment currently is being overwhelmed by the 30% annualized gain in the dollar during the spring.

Also, state and local governments are continuing to slow the growth of services and raise taxes in order to balance their budgets. Instead of stimulating economic activity, the combined impact of reduced defense spending and reduced stimulus from other governments may actually retard activity.

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Indeed, without an engine of growth, questions have been raised about why recovery should occur. The answer is that forces which held the economy down are beginning to dissipate. Also, internal economic dynamics, such as inventory adjustments, are through their restraining phase and are shifting to a stimulus phase. Also, falling interest rates are causing the interest sensitive parts of the economy to stir, if only slightly. One major forecasting service has maintained that the interest sensitive and inventory adjustment processes will be sufficient to end this recession, but without an engine of growth, the next recession may start before the end of 1992. This is an unlikely outcome, but it is possible.

What are those recessionary forces that are beginning to subside?

First, the credit crunch that caused bank loans to fall sharply and restrict the demand for money appear to be moderating slightly. One of the causes of this crunch was the demand by regulators that commercial banks realign their assets with their capital to avoid the problems created by the thrifts. This meant reducing dividends, raising capital, selling off assets, and reducing loan activity. Some capital raising has occurred. Also, the unusually large interest rate spreads have permitted banks to raise their operating earnings to partially offset their portfolio losses. In some cases, this has been sufficient to permit further lending activity. A recent survey by the Federal Reserve revealed that no banks currently are tightening their lending criteria, although many continue to use unusually tough lending qualifications. Actually, loan activity remains sluggish, with commercial and industrial loans as measured by the St. Louis Federal Reserve down 4.5% from the previous year. Nevertheless, anecdotal evidence and the improved profitability of banks suggest that loan activity will begin to improve.

Second, the wartime uncertainties clearly are over. Although consumer confidence again subsided following the March euphoria, sentiment once again is tracking economic conditions. When those conditions improve, so will the outlook of the consumer. In the meantime, auto dealers are experiencing increased sales even if unit auto sales remain sluggish because rental fleets are holding their cars longer before selling them as used cars. Even this shift in purchasing tactics by fleets should no longer restrain auto sales. Also, sales of nonauto durables have rebounded strongly. Certainly, a continuation of strong gains is not likely. In the meantime, reports that the consumer is not willing to aid the recovery are overstated. Our projections of sales of nonauto durables shows an 11.2% gain for the spring while sales of auto dealers are projected to increase 15.8% in sales.

Third, the cost excesses that undermined profit growth and discouraged corporate spending are being squeezed out of the economy. Hours worked have continued to decline more substantially than economic activity. As a result, operating profits less tax liability actually increased during the fourth quarter. They declined during the winter, but only by an annualized 3%. Another small decline is expected in the spring. Yet, these are unusually low declines for a recession and reflect the cost cutting that has stamped this decline.

The case for a lessening of restraint from the construction and debt overhang are less compelling. Nonresidential construction continues to fall significantly. More significantly, the Dodge estimates of construction contracts continue to decline by 12% from previous year levels so far this year. Normally, these contracts anticipate expenditures six to nine months down the road. Nevertheless, activity has fallen so dramatically that vacancy rates no longer are rising significantly even during a recession. For example, even with anemic sales of single family homes, inventories are only 7.4 months of sales. While this is above normal, the ratio has been declining since the year began. Apartment vacancy rates are 7.6%, up slightly from last year but down significantly from a 1989 peak of 8.3%. Even commercial space is stabilizing at a high 20% vacancy rate. While none of these figures suggest that the construction slump is over, the degree of decline certainly should be lessening. Moreover, some recovery in housing is beginning to develop.

The debt overhang also appears to be diminishing for households and corporations. During the fourth quarter, private debt grew less than 6% at an annual rate. Since then, households have been liquidating installment debt for the latest four months. Corporations have been substantially increasing their equity offerings to remove excessive debt from their balance sheets. Certainly, debt continues to grow in proportion to economic activity, which barely expanded in the past two quarters. Again, however, an economic upturn should rapidly increase the capacity to finance debt even as the stock of debt should continue to slow.

Even if debt and construction adjustments are not completed, the degree of economic displacement already created to come to grips with those problems may be sufficient. While no surge in corporate spending or consumer activity may develop, further contraction also may not be necessary.

Based upon those improving conditions, an economic upturn should begin soon. According to the leading indicators, which lead only by two or three months in economic recoveries, the rebound is about now. Other data show that the decline definitely is diminishing. Initial unemployment claims have slowed to 445,000 in the latest week. A downtrend has been observed since the middle of March, when claims reached a recession high of 519,000. Although employment continues to decline, the latest claims are consistent with only a weekly fall of 5,000. Further claims decline will mean employment gains in the weeks ahead.

The upturn in orders for electric machinery and electronic components also suggests some activity is stirring. The book to bill ratio in the semiconductor industry is well above one and has reached its highest point in several years. Building permits have been trending upward for three months. And the leading indicators now have three consecutive months of gains. In addition, falling interest rates should lower some financing costs and raise some desires to purchase interest sensitive goods. Also, consumer prices are now growing more slowly than hourly earnings. This should provide enough real purchasing power for those working to offset the lost spending power suffered by those laid off.

Certainly, the forward looking stock, bond, and foreign exchange markets all believe a recovery is imminent if not already in place. Through March favorable stock values probably reflected the favorable outcome of the war and declining interest rates. Long-term interest rates no longer are declining, suggesting that a recovery is anticipated. However, this also improves the earning potential of stocks. While earnings and interest rate changes are offsetting, the latest surge in stock values clearly indicates that earnings improvement is expected to be more important. Also, lower quality bonds have outperformed high grade bonds, also indicating that a recovery is likely. (Even the leadership of stocks, with cyclicals such as metals and autos surging while drug and consumer stocks are struggling, suggests that an economic recovery is expected.) Finally, the dollar's strength reflects the belief by international investors that returns will be stronger here than elsewhere. (Of course, the payment of wartime finance pledges and the shrinking of the trade deficit also contributed to the dollar's strength.)

Our latest estimates indicate that the recovery will begin in June. Improving inventory investment, rising consumption and improving housing should provide enough impetus to add employment and stabilize fixed investment. Yes, uncertainties remain, especially if inflation rebounds and profits are squeezed more than currently projected. A sharp decline in export activity also could derail the recovery. That is why any upturn will be unusually mild. Unemployment will exceed 7% before gradually subsiding next year. Indeed, the stock market may already have discounted a normal recovery, when an anemic upturn is more likely. If so, some correction in stock evaluations should be anticipated. Nevertheless, employment probably already is rising as you read this report.

onthly Statistical Highlights

	MAY 1991	JUNE 1991	JULY 1991
ayroll Employment	-37,000	43,000	65,000
ndex of Hours Worked	-0.1	0.1%	0.1%
ousehold Employment	-252,000	9,000	41,000
ivilian Unemployment Rate	6.8%	6.9%	6.9%
ersonal Income	0.2%	0.7%	0.5%
avings Rate	3.4%	3.7%	3.7%
ersonal Consumption	0.4%	0.5%	0.5%
etail Sales	0.3%	0.4%	0.4%
uto Sales	8.4*	8.5*	8.6*
ousing Starts	3.2%	1.8%	-0.2%
ousing Permits	-0.3%	1.3%	1.5%
onstruction Expenditures	-0.1%	1.4%	0.7%
usiness Inventories	0.2%	0.3%	0.2%
rders for Durable Goods	2.7%	-0.9%	0.3%
rders - Nondefense Capital Goods	-0.6	0.4%	-0.2%
Industrial Production	0.0%	0.4%	0.4%
PI	0.4%	0.3%	0.3%
PPI	0.3%	0.3%	0.2%
onsumption Deflator	0.4%	0.4%	0.3%
Leading Indicators	0.2%	0.2%	0.3%
urrency Index	1.7%	-0.6%	0.7%
Equity Index	1.3%	1.6%	3.7%
Real GNP (annual rate)	-0.6%	1.8%	1.5%
M1 (annual rate)	15.2%	2.4%	4.4%
M2 (annual rate)	4.8%	5.5%	4.8%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Initial claims finally approached non-recessionary levels in late May, as claims rose only 445,000. However, the insured unemployment rate reached a recessionary high of 3.4%, suggesting that few recently laid-off workers are being recalled. April's surge in household employment that led to a decline in unemployment probably was a sampling distortion. Therefore, some adjustment toward more normal conditions is likely in May. Even so, substantial discrepancy has arisen between the payroll and household estimates of employment. Although hours worked in manufacturing increased modestly, hours continued to fall in the private economy. A further dip is expected next month. Part of the sharp rebound in hourly earnings during April reflects composition changes as auto employment actually increased by 13,000. The decrease in total manufacturing employment was heavily concentrated in overhead, as production workers declined only 24,000 while total manufacturing fell 42,000.

PERSONAL INCOME AND OUTLAYS-Despite the increase in hourly earnings, wage and salaries grew less than expected in April. A smaller than expected gain in service employment along with further declines in construction accounted for most of the surprise. No impact from minimum wage requirements was apparent in wages received in the distributive industry. Farm subsidies were less than last month but remained unusually large. Further decreases in such subsidies are expected through the summer. Property income continues to deteriorate because of the drop in interest rates. Further declines also are expected here through the summer. As unemployment slows its rise, transfer payments also will not grow as sharply as in the past. These are the basic reasons why personal income should increase more slowly relative to wages than in the past year.

Most of the strong gains in durable retail sales have not been reflected in consumption of durable goods. This discrepancy has been consistent since fall, but should become less prevalent later this year. Why the consumption rate trails the retail sales rate remains a question. Of course, the discrepancy between unit auto sales and dealer sales of autos reflects the fleet sales of cars and the servicing activity at the dealerships. When sales are sluggish, dealer sales fall less than unit sales. The reverse happens when sales pick up. No discrepancy between retail and consumption of nondurables is apparent. Prices have restrained growth here, but prices are beginning to rebound and no sales rebound has followed. This sluggish growth in nondurables remains a surprise when durable sales begin rebounding. Services have picked up with activity in the financial markets. Also, medical services continue to grow vigorously. Because of the sharp slump in January sales, there is little doubt that consumer spending will grow significantly during the spring.

The one constraint upon further consumer spending is the low level of savings. Savings currently are projected to reach a low of 3.4% during May. Some gains are expected after that, but the degree of improvement is so modest to suggest further consumption weakness could materialize following the second quarter rebound.

CONSTRUCTION-Housing permits were corrected to show a third increase in April. Therefore, the curious result that starts grew most strongly in the West while permits were weakest there has been adjusted. Multi-family activity remains surprisingly weak. Indeed, permits suggest that further declines are possible. Housing sales are rebounding, but the gain to 500,000 in April was only a 1.2% increase. This will not support the 47% annualized gain in single family starts projected for the spring. Therefore, sales must rebound further or the housing recovery soon will sputter. At least, the decline in median housing prices has ended. Stability of property values could add to housing activity in the months ahead if mortgage drift down to 9%, as expected.

Falling residential activity led to a large drop in construction spending during the winter than in the fall. However, the improvement in housing starts suggests that housing will be adding to construction activity during the next few months. The weakness in public construction may have been the result of several unrelated and unsustainable events. If so, a rebound in public activity is likely in the spring. However, no rebound in nonresidential construction is likely soon. Weakness is widespread in the nonresidential sector, with the greatest declines in hotel, commercial and industrial properties.

Construction prices continued to fall in March, adding to the affordability of construction product. At some point, this price decline along with falling interest rates should generate some construction demand. When it occurs, prices should begin rebounding. Nevertheless, activity should remain sufficiently sluggish to restrain construction prices into 1992.

BUSINESS ACTIVITY-Strong shipments occurred at the expense of some inventories in process while materials continued to be held in minimal supplies. The April dip in manufacturing inventories suggest that inventory liquidations are continuing. Indeed, the swing in the inventory-values suggests that liquidation of inventories could be nearly as extensive in the spring as during the winter. At this point, inventory accumulation will be so far below sales that some rebound should be expected.

Defense shipments are expected to remain weak for the remainder of this year. The Persian Gulf conflict exhausted less ordnance and equipment than expected. With the current downsizing of the military, no early rebound in defense spending is likely. The rebound projected for early next year reflects shipments of aircraft, which will respond more slowly to the downsizing effort.

The large discrepancy between shipments and orders of nondefense capital goods creates concern about whether those shipments can rise. Most of the drop in orders has been in aircraft, where the backlog remains large, even if it is shrinking. Moreover, those weak aircraft orders will not impact activity for two or three years. However, orders still are $1.1 billion below shipments if aircraft is excluded. This certainly is an area where economic weakness can be greater than projected.

Fortunately, machinery orders and orders for electronic components have been strong enough to overcome the weakness in capital goods. Some gains currently are projected for those orders during the spring. This is a substantial reversal of the 14% decline in durable goods orders experienced in the past year.

PRICES-Although the rebound in oil prices created a rise in energy prices, all other consumer prices have continued to moderate. This is normal for the early stages of an economic recovery. Indeed, consumer prices should show their smallest gains during the second quarter. While prices of durable goods are expected to rebound in the summer, the gains should not be substantial. Moreover, prices of consumer services continue to moderate. Higher energy prices will raise commodity inflation, but this will be offset by slowing service price inflation. Thus, a 3% gain in the PPI should only mean a 3.3% increase in the CPI. By contrast, the CPI grew 4.9% during the past twelve months while the PPI grew a similar 3.1%. Because of shifting composition, the GNP deflator will continue to grow nearly 4%.

MISCELLANEOUS-As mentioned earlier, the improvement in the trade balances has been largely the result of slowing imports because of the recession. Also, oil volumes continue to be below normal. In March, only 216 million barrels were imported. Normally, nearly 250 million would be needed monthly. Thus, some deterioration should be expected in the trade balances even without dollar changes. The currency rebound also should reduce competitiveness of American goods while slowing economies abroad should restrain export opportunities. Of course, a deterioration in the trade deficit will restrain further dollar gains. Also, the dollar benefitted from the pledge payments for the war. Thus, some weakness in the dollar could materialize this summer. If all this develops, our trade deficits will only rise to $6 billion per month and again begin declining by the summer of 1992.

The leading indicators almost certainly will record a substantial increase this quarter. Further increases are possible in subsequent quarters. Most of the gain has been in psychological variables, such as consumer sentiment and stock values. In recent months, however, building permits also have materialized. Money growth has been less significant, growing early in the year after inflation adjustment but beginning to slow again.

FINANCIAL MARKETS

Weakness in the demand for money has led to declines in short-term interest rates as the Federal Reserve has responded by lowering their federal funds target. The recovery is not yet assured. Therefore, further declines in short-term interest rates are possible. However, no further decrease in the discount rate is expected. As the recovery develops late in the year, some restraint by the Federal Reserve may surface to prevent inflationary forces from reappearing. Certainly, changes are not expected to sufficient to stimulate another change int he prime rate until early next year, when an increase is likely.

Long-term interest rates have not declined as much as expected. Inflationary fears have been cited as preventing the decline, largely because the economic recovery is expected to raise prices. In fact, recoveries do not generate inflation, bottlenecks and economic friction do. Certainly enough unemployed skilled workers and underutilized equipment exist to insure that inflation will not develop.

Part of the upturn in interest rates also has been attributed to tight monetary policy abroad, especially in Germany. To be sure, the Germans have been talking about increasing interest rates, although the new head of the Bundesbank suggests that falling interest rates elsewhere may forestall any need to raise rates in Germany. However, if our interest rates were being pressured upward because of higher rates abroad, the dollar would be declining in value. In fact, the dollar has been rallying strongly. Thus, international interest rate pressures have not dictated our rates at this time.

Aside from misguided inflationary fears, interest rates have been rising because of the heavy borrowings by the government. Apparently, these borrowings have more than offset the reduced corporate borrowings as they restrain capital spending and liquidate inventories. Further government borrowing pressures should not surface until the end of July. This provides a window of borrowing opportunity that many corporations are using to replace higher and unpredictable bank debt. Therefore, long-term rates should fall further into the summer, but the magnitude of decline should be modest.

EQUITY MARKETS-If interest rates fall during the next two months, the stock market could rally to a Dow Jones in excess of 3100. Also, corporate profits soon should rebound, although the magnitude of recovery will be less than normally experienced despite the heavy cost cutting. This is the result of a sluggish economic recovery. The stock market already is rotating from defensive issues, such as utilities, consumer goods, and drugs, to the cyclicals such as auto production and metals production. However, the cyclical technology stocks have not joined in this rebound, suggesting that the market leadership is not complete. Thus, some profit taking certainly is possible during the next few months. Indeed, a decline to less than 2800 remains likely in the fall. However, the profit gains and some rebound in the dollar's value next year should allow further gains in stock market values. The market remains ahead of economic conditions.

Interest sensitive issues probably should no longer be overweighted in the portfolio. Some technology issues should be bought on any pullback from current market levels. Caution remains appropriate for multi-national issues. Although some gains remain likely in regional banks, which are still slightly undervalued, opportunities are becoming more difficult to uncover. For that reason, caution remains appropriate at these high levels.

EMPLOYMENT

	Payroll Employment Proj	Payroll Employment AR%	Index of Hours Worked Proj	Index of Hours Worked AR%	Household Civilian Employment Proj	Household Civilian Employment AR%	Civilian Unemployment Rate Proj	Hourly Earnings Proj	Hourly Earnings AR%
October	110432		123.1		117733		5.7	10.12	
November	110165	-1.7	123.4	-4.4	117386	-0.9	5.9	10.14	2.1
December	110004		124.0		117574		6.1	10.19	
January 1991	109813		121.8		116922		6.2	10.19	
February	109527	-2.4	122.2	-5.4	116918	-2.4	6.5	10.21	2.5
March	109286		121.4		116754		6.8	10.24	
April	109162		121.0		117398		6.6	10.29	
May	109125 *	-1.4	120.9 *	-2.7	117146 *	1.3	6.8 *	10.32 *	4.2
June	109148		121.0		117155		6.9	10.35	
July	109213		121.1		117196		6.9	10.39	
August	109273	0.4	121.2	0.7	117243	0.0	6.9	10.42	3.9
September	109311		121.2		117268		7.0	10.45	
October	109394		121.3		117306		7.0	10.49	
November	109465	0.7	121.3	0.7	117351	0.4	7.1	10.52	3.9
December	109537		121.5		117402		7.1	10.55	
January 1992	109601		121.6		117463		7.1	10.59	
February	109664	0.7	121.7	1.1	117514	0.6	7.1	10.62	4.0
March	109733		121.8		117596		7.0	10.66	
Chng Mar(92)/Mar(91)		0.4		0.3		0.7	0.9 #		4.1
Chng Mar(91)/Mar(90)		-0.8		-2.4		-1.3	0.4 #		3.1

PERSONAL INCOME

	Personal Income Proj	Personal Income AR%	Wage & Salary Proj	Wage & Salary AR%	Personal Savings Proj	Personal Savings AR%	Disposable Income Proj	Disposable Income AR%	Personal Outlays Proj	Personal Outlays AR%
October	4.696		2.732		152.5		3.982		3.830	
November	4.716	3.5	2.732	0.8	166.1	-9.7	4.001	3.2	3.835	3.9
December	4.743		2.754		183.9		4.022		3.839	
January 1991	4.725		2.740		185.4		4.006		3.820	
February	4.735	1.6	2.740	0.3	166.1	-7.8	4.017	1.7	3.850	2.1
March	4.752		2.744		140.9		4.033		3.892	
April	4.755		2.749		145.9		4.033		3.887	
May	4.765 *	3.0	2.757 *	2.5	138.8 *	-38.4	4.040 *	3.0	3.901 *	5.1
June	4.799		2.768		151.5		4.071		3.919	
July	4.821		2.783		149.7		4.089		3.939	
August	4.838	5.6	2.795	5.3	144.4	-2.2	4.102	5.5	3.958	5.8
September	4.857		2.805		139.7		4.118		3.978	
October	4.881		2.819		142.7		4.139		3.996	
November	4.902	5.4	2.829	5.2	140.5	-6.0	4.157	5.5	4.016	5.9
December	4.926		2.843		143.9		4.177		4.033	
January 1992	4.952		2.858		151.7		4.205		4.053	
February	4.973	5.9	2.869	5.8	155.6	42.9	4.228	6.9	4.072	5.8
March	4.998		2.884		159.6		4.251		4.091	
Chng Mar(92)/Mar(91)		5.2		5.1		13.3		5.4		5.1
Chng Mar(91)/Mar(90)		3.4		2.8		-32.6		2.8		4.6

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AR% is the annualized percentage change from the previous quarter.
# is the percentage change in the labor force

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	3720.6		474.6		1216.2		2029.8		2675.3	
November	3725.6	4.0	468.7	-10.1	1219.3	3.7	2037.6	7.0	2672.1	-3.4
December	3728.6		462.2		1212.5		2053.9		2672.9	
January 1991	3710.7		439.7		1205.9		2065.1		2644.9	
February	3740.8	2.1	452.8	-12.3	1215.4	-1.2	2072.6	7.7	2660.4	-1.3
March	3782.2		467.8		1215.8		2098.6		2688.1	
April	3777.9		455.8		1210.6		2111.5		2680.4	
May	3791.9 *	5.3	457.0 *	3.4	1214.5 *	0.8	2120.4 *	8.4	2681.6 *	2.7
June	3810.0		458.9		1219.6		2131.5		2685.4	
July	3829.8		460.9		1223.7		2145.2		2691.7	
August	3848.2	6.0	462.9	5.3	1228.2	4.4	2157.1	7.0	2697.9	2.4
September	3868.3		465.7		1232.3		2170.3		2705.9	
October	3886.5		467.8		1235.4		2183.3		2711.5	
November	3906.3	6.0	470.8	6.3	1239.9	3.7	2195.6	7.3	2717.5	2.7
December	3923.2		472.2		1242.6		2208.4		2721.3	
January 1992	3943.0		474.5		1247.4		2221.1		2727.7	
February	3961.5	5.9	477.5	5.8	1250.5	3.7	2233.5	7.2	2733.3	2.4
March	3980.7		478.8		1254.1		2247.8		2737.6	
Chng Mar(92)/Mar(91)		5.2		2.4		3.1		7.1		1.8
Chng Mar(91)/Mar(90)		5.1		-3.0		3.2		8.3		0.3

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	151.75		22.57		9.3		97.69		31.49	
November	151.75	0.2	22.27	-5.1	8.7	-28.0	98.29	3.8	31.19	1.8
December	149.06		21.81		8.9		97.29		29.96	
January 1991	147.81		21.71		7.6		96.91		29.19	
February	151.10	-1.7	22.48	1.1	8.3	-30.1	97.86	-1.1	30.76	-5.9
March	151.67		22.65		8.7		97.72		31.30	
April	151.54		22.87		7.9		97.28		31.39	
May	152.03 *	5.1	22.81 *	11.2	8.4 *	3.3	97.63 *	0.6	31.59 *	15.8
June	152.67		22.96		8.5		98.04		31.67	
July	153.24		23.02		8.6		98.37		31.85	
August	153.84	4.8	23.15	4.7	8.6	19.0	98.73	4.5	31.96	5.7
September	154.50		23.27		8.7		99.06		32.17	
October	155.00		23.35		8.6		99.31		32.34	
November	155.72	4.6	23.47	4.7	8.7	4.7	99.67	3.7	32.58	7.4
December	156.10		23.42		8.9		99.89		32.79	
January 1992	156.76		23.61		8.8		100.27		32.88	
February	157.37	4.5	23.78	6.1	9.0	9.5	100.52	3.7	33.07	5.6
March	157.81		23.89		9.0		100.81		33.11	
Chng Mar(92)/Mar(91)		4.0		5.5		3.4		3.2		5.8
Chng Mar(91)/Mar(90)		1.2		-2.2		-9.4		3.1		-2.2

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CONSTRUCTION

	Housing Starts Proj	Housing Starts AR%	Single Family Starts Proj	Single Family Starts AR%	Multi-Family Starts Proj	Multi-Family Starts AR%	Housing Permits Proj	Housing Permits AR%
October	1.026		0.839		0.187		0.925	
November	1.130	-26.8	0.769	-28.7	0.361	-19.0	0.916	-45.0
December	0.971		0.751		0.220		0.854	
January 1991	0.847		0.648		0.199		0.802	
February	0.992	-41.0	0.788	-28.1	0.204	-70.1	0.876	-17.3
March	0.901		0.736		0.165		0.892	
April	0.957		0.778		0.179		0.913	
May	0.988 *	34.5	0.803 *	47.6	0.185 *	-7.5	0.910 *	30.1
June	1.006		0.813		0.193		0.922	
July	1.004		0.824		0.180		0.936	
August	1.017	14.9	0.831	17.8	0.186	2.9	0.945	13.9
September	1.034		0.839		0.195		0.955	
October	1.039		0.842		0.197		0.959	
November	1.045	11.5	0.845	7.6	0.200	30.0	0.968	9.5
December	1.055		0.853		0.202		0.974	
January 1992	1.058		0.850		0.208		0.978	
February	1.079	12.0	0.864	6.9	0.215	35.3	0.988	8.7
March	1.092		0.869		0.223		0.996	
Chng Mar(92)/Mar(91)		21.2		18.1		35.2		11.7
Chng Mar(91)/Mar(90)		-30.6		-25.5		-48.3		-27.6

	Non-Residential Proj	Non-Residential AR%	Public Construction Proj	Public Construction AR%	Residential Construction Proj	Residential Construction AR%	Construction Expenditures Proj	Construction Expenditures AR%	Real Construction Expenditures Proj	Real Construction Expenditures AR%
October	134.8		110.8		174.6		420.2		379.6	
November	132.6	-21.1	113.9	9.8	169.3	-22.9	415.8	-13.4	375.9	-12.9
December	130.7		111.2		164.8		406.7		368.1	
January 1991	130.7		103.6		161.9		396.2		358.6	
February	132.4	-6.8	109.8	-16.0	155.1	-26.2	397.3	-17.5	359.9	-16.7
March	128.1		108.2		154.5		390.8		354.9	
April	128.5 *		109.4 *		156.1 *		394.0 *		357.5 *	
May	127.4	-8.0	110.3	11.5	156.0	1.5	393.7	0.9	356.9	0.9
June	127.2		110.8		161.1		399.1		361.2	
July	127.5		111.6		162.6		401.7		362.9	
August	127.8	0.6	112.5	8.9	163.3	15.1	403.6	8.5	364.3	6.6
September	128.4		113.5		164.1		406.0		365.8	
October	129.1		113.9		164.9		407.9		366.8	
November	128.6	3.5	114.4	6.4	165.3	5.1	408.3	4.9	366.5	2.9
December	129.3		114.6		165.9		409.8		367.5	
January 1992	129.8		115.3		167.0		412.1		368.6	
February	130.4	4.0	115.9	6.0	168.4	7.4	414.7	5.9	370.3	3.7
March	130.6		116.7		169.8		417.1		372.0	
Chng Mar(92)/Mar(91)		2.0		7.9		9.9		6.7		4.8
Chng Mar(91)/Mar(90)		-8.8		-1.5		-25.1		-14.1		-14.7

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	391.5		129.46		38.55		33.57	
November	392.0	0.4	116.32	-14.1	32.73	19.3	33.92	0.1
December	388.8		120.22		38.56		32.72	
January 1991	388.4		117.79		33.96		31.72	
February	388.5	-3.2	117.55	-18.8	33.76	-32.2	32.21	-18.1
March	386.0		112.12		31.94		31.41	
April	385.3		115.44		28.71		31.85	
May	384.9 *	-2.2	118.56 *	4.7	29.51 *	-36.7	31.67 *	-0.1
June	386.2		117.49		30.66		31.80	
July	387.4		117.81		30.83		31.73	
August	388.9	3.6	117.73	2.8	31.08	22.3	31.88	1.4
September	390.4		118.42		31.55		32.05	
October	392.1		118.57		31.89		32.01	
November	394.0	5.3	117.68	1.3	31.47	8.1	32.17	3.2
December	395.8		118.89		31.94		32.23	
January 1992	397.9		119.22		32.17		32.54	
February	398.8	5.2	119.02	3.5	32.00	5.6	32.41	4.7
March	400.3		119.93		32.43		32.58	
Chng Mar(92)/Mar(91)		3.7		6.5		1.5		3.7
Chng Mar(91)/Mar(90)		0.3		-14.4		-12.2		-1.3

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	824.3		8.77		109.9		83.0	
November	826.1	-0.3	9.23	4.2	108.3	-7.4	81.6	-10.4
December	826.9		8.80		107.2		80.6	
January 1991	831.4		8.20		106.6		80.0	
February	828.2	0.6	8.57	-17.5	105.7	-9.6	79.1	-11.8
March	821.6		8.77		105.0		78.5	
April	819.2 *		8.53		105.1		78.3	
May	820.5	-3.0	8.46 *	-2.3	105.1 *	-2.0	78.1 *	-4.8
June	822.8		8.40		105.5		78.3	
July	824.7		8.42		105.9		78.5	
August	827.3	3.3	8.45	-2.5	106.3	4.0	78.6	1.7
September	830.4		8.36		106.6		78.6	
October	833.9		8.40		107.0		78.8	
November	837.2	4.8	8.44	1.9	107.3	4.1	78.9	1.9
December	840.5		8.51		107.7		79.1	
January 1992	843.8		8.55		108.0		79.1	
February	846.7	4.7	8.59	5.5	108.3	3.7	79.2	1.4
March	850.2		8.55		108.6		79.3	
Chng Mar(92)/Mar(91)		3.5		-2.5		3.4		1.0
Chng Mar(91)/Mar(90)		1.3		-3.7		-3.6		-6.1

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	133.4		122.3		121.3		132.8	
November	133.8	6.9	122.8	4.4	120.7	16.1	133.1	2.8
December	134.2		122.1		118.9		133.3	
January 1991	134.8		122.0		116.8		134.4	
February	135.1	3.5	121.3	-3.2	115.2	-14.4	134.8	5.2
March	135.0		120.9		115.1		135.2	
April	135.2		121.4		115.0		135.4	
May	135.7 *	2.1	121.8 *	1.3	115.2 *	-1.4	135.9	3.2
June	136.1		122.2		115.7		136.3	
July	136.5		122.4		116.3		136.8	
August	136.9	3.5	122.6	2.7	117.0	3.4	137.2	3.8
September	137.2		122.8		115.5		137.5	
October	137.5		123.1		117.6		137.8	
November	137.9	3.2	123.4	2.5	118.0	6.1	138.4	3.5
December	138.3		123.7		118.4		138.8	
January 1992	138.7		123.9		118.7		139.1	
February	139.1	3.4	124.2	2.8	119.0	3.4	139.7	3.9
March	139.5		124.5		119.3		140.1	
Chng Mar(92)/Mar(91)		3.3		3.0		3.6		3.7
Chng Mar(91)/Mar(90)		4.9		3.1		2.1		4.2

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	139.1		112.9		134.6		150.2		110.7	
November	139.4	7.1	112.7	1.6	135.0	11.0	150.6	5.4	110.6	-1.0
December	139.5		112.6		135.2		150.4		110.5	
January 1991	140.3		112.4		135.4		151.5		110.5	
February	140.6	3.5	113.1	0.8	135.3	0.8	152.2	4.7	110.4	-1.0
March	140.7		113.4		134.9		152.7		110.1	
April	140.9		113.0		135.1		152.9		110.2 *	
May	141.4 *	2.5	113.2 *	0.9	135.6 *	1.2	153.4 *	3.4	110.3	0.0
June	141.9		113.5		136.1		153.9		110.5	
July	142.3		113.7		136.3		154.5		110.7	
August	142.6	3.5	113.9	2.3	136.5	2.8	155.0	4.1	110.8	1.8
September	143.0		114.0		136.8		155.4		111.0	
October	143.3		114.1		137.1		155.9		111.2	
November	143.7	3.2	114.3	1.6	137.5	2.8	156.4	3.8	111.4	1.9
December	144.2		114.6		137.8		156.9		111.5	
January 1992	144.6		114.8		138.1		157.4		111.8	
February	144.9	3.4	115.0	2.5	138.4	2.7	157.9	4.0	112.0	2.2
March	145.4		115.3		138.7		158.5		112.1	
Chng Mar(92)/Mar(91)		3.3		1.7		2.8		3.8		1.8
Chng Mar(91)/Mar(90)		4.5		0.9		4.5		4.9		0.3

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
October	-9.90		141.5		5520		4157		-23.8
November	-9.54	-25.8	139.7	-11.4	5525	0.9	4150	-1.6	-16.2
December	-6.32		139.6		5538		4154		-7.9
January 1991	-7.38		138.8		5548		4129		5.6
February	-5.50	81.3	140.4	-0.2	5563	2.4	4126	-2.6	13.4
March	-4.05		141.4		5573		4123		10.5
April	-4.73 *		142.2		5578		4119		2.3
May	-5.46	31.5	142.5 *	6.7	5593	2.6	4117	-0.6	-1.8
June	-5.21		142.8		5618		4123		-4.6
July	-5.56		143.2		5648		4128		-7.5
August	-5.89	-55.2	143.4	2.6	5681	6.3	4142	2.3	-8.7
September	-5.74		143.7		5717		4159		-10.6
October	-6.27		143.4		5748		4171		-13.0
November	-6.23	-56.9	143.8	1.0	5777	6.6	4174	3.1	-11.6
December	-6.74		144.2		5799		4179		-11.8
January 1992	-6.61		144.6		5839		4197		-12.4
February	-6.42	-1.3	144.9	3.1	5874	7.3	4205	3.3	-12.4
March	-6.27		145.2		5918		4224		-13.1
Chng Mar(92)/Mar(91)		-54.8		2.7		6.2		2.5	
Chng Mar(91)/Mar(90)		53.0		-2.5		3.5		-0.6	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	83.43		160.9		8.86		168.05	
November	82.12	-19.0	163.5	2.0	8.50	-11.4	172.21	-21.1
December	83.35		162.8		8.24		179.57	
January 1991	83.51		159.1		8.27		177.95	
February	82.12	8.0	163.1	-2.8	8.03	-14.9	197.75	54.2
March	88.12		161.5		8.29		203.57	
April	89.67		158.3		8.21		207.78	
May	91.17 *	30.9	158.5	-5.2	8.25 *	0.7	210.57 *	42.0
June	90.58		160.6		8.17		214.03	
July	91.22		162.7		8.04		221.89	
August	89.61	-4.8	162.3	10.8	8.13	-3.8	215.03	9.6
September	87.24		164.7		8.22		210.18	
October	85.56		163.8		8.21		205.27	
November	86.14	-11.5	166.6	7.4	8.24	6.4	209.32	-10.7
December	88.28		168.2		8.32		214.51	
January 1992	88.91		170.0		8.39		216.62	
February	89.43	13.6	170.3	10.0	8.43	8.3	217.14	15.3
March	90.07		170.3		8.45		218.19	
Chng Mar(92)/Mar(91)		2.2		5.4		1.9		7.2
Chng Mar(91)/Mar(90)		-6.4		-3.5		-3.5		9.3

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	318.0		821.1		3324.5		8.11		7.16	
November	320.0	9.5	823.4	4.4	3324.7	3.2	7.83	-4.0	7.05	-16.3
December	322.0		825.3		3329.8		7.31		6.70	
January 1991	326.8		826.8		3333.0		6.91		6.28	
February	332.8	14.9	836.3	6.0	3357.1	3.6	6.25	-52.7	6.20	-40.0
March	334.4		843.0		3378.1		6.12		5.92	
April	333.3		842.2		3383.8		5.91		5.71	
May	334.6 *	4.0	852.2 *	6.9	3397.0 *	5.1	5.76 *	-35.2	5.62 *	-29.3
June	335.9		853.9		3412.2		5.63		5.54	
July	337.0		857.0		3425.6		5.57		5.49	
August	338.5	4.9	861.8	5.6	3438.6	4.9	5.53	-12.3	5.45	-10.3
September	340.3		864.7		3450.9		5.64		5.48	
October	342.1		868.2		3463.7		5.78		5.52	
November	344.0	6.6	873.4	5.5	3480.1	4.9	5.93	29.3	5.67	14.9
December	346.1		876.7		3494.6		6.14		5.81	
January 1992	348.0		880.4		3510.2		6.12		5.96	
February	349.7	6.8	883.3	5.0	3522.8	5.2	6.18	15.9	6.04	29.4
March	351.5		886.5		3538.1		6.22		6.13	
Chng Mar(92)/Mar(91)		5.1		5.2		4.7		1.6		3.5
Chng Mar(91)/Mar(90)		10.2		4.7		3.3		-26.6		-20.4

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	9.53		7.49		7.98		8.06		10.00	
November	9.31	-4.5	7.16	-3.6	7.85	-3.3	7.98	-4.4	10.00	0.0
December	9.05		7.09		7.80		7.82		10.00	
January 1991	9.04		7.08		7.10		7.17		9.52	
February	8.83	-14.7	6.91	-11.4	6.49	-48.7	6.60	-48.4	9.05	-28.7
March	8.93		7.10		6.41		6.45		9.00	
April	8.86		7.02		6.07		6.06		9.00	
May	8.85 *	-4.5	6.95 *	-6.3	5.93 *	-37.3	5.94 *	-39.1	8.55 *	-20.3
June	8.78		6.78		5.80		5.86		8.50	
July	8.75		6.74		5.75		5.81		8.50	
August	8.77	-1.2	6.75	-7.9	5.68	-13.4	5.77	-9.7	8.50	-8.2
September	8.89		6.84		5.74		5.83		8.50	
October	8.88		6.85		5.85		5.90		8.50	
November	8.93	6.8	6.92	9.4	6.11	25.1	6.16	22.1	8.78	12.8
December	9.04		7.02		6.20		6.24		9.00	
January 1992	9.11		7.13		6.23		6.30		9.00	
February	9.16	9.4	7.17	14.4	6.20	12.7	6.29	15.2	9.00	11.4
March	9.19		7.20		6.28		6.37		9.00	
Chng Mar(92)/Mar(91)		2.9		1.4		-2.0		-1.2		0.0
Chng Mar(91)/Mar(90)		-5.0		-3.0		-21.7		-21.6		-10.0

PROJ includes current information until the * and then projections by month thereafter
ARX is the annualized percentage change from the previous quarter.

U1880-3

ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS

June 1991

Dr. Donald Ratajczak, Director
For Release: Monday, July 1, 1991

A DOUBLE-DIP RECESSION IS UNLIKELY; BUT STILL POSSIBLE

Our **PROJECTIONS** indicate a strong surge in economic activity during May, led by substantial gains in consumer spending and inventory rebuilding. Construction spending and manufacturing activity other than inventory rebuilding also appear to be firmer. The coincident indicators, which measure current economic activity, showed the first increase in May since last June. If further gains appear, April may be declared the last month of this relatively short and mild recession that began last July.

Of course, a single month does not constitute the strengthening and cumulative gains that are necessary to declare that a recovery has begun. However, initial unemployment claims in June suggest that further gains in economic activity continued that month. If this increased activity continues to add to the 59,000 gain in employment during May, purchasing power will increase and further gains in consumer spending are likely.

However, some of the exceptional gain in consumer spending during May reflected an early summer. This stimulated sales of summer clothing and also raised utility consumption. Minimal gains in consumption after adjustment for inflation are expected in June. Also, the May gains in consumer spending were largely at the expense of savings. With consumer debt remaining disturbingly high, further declines in savings are not likely. Already, personal bankruptcies have surged 28 percent during the first quarter of this year. Further increases in such bankruptcies are likely. (Indeed, bankruptcies normally reach their peak during the first year of recovery. This occurs because the recession drains financial reserves, which cannot be replenished fast enough early in the recovery. Once the recovery is well underway, however, financial resources are restored.)

Unfortunately, this recovery still could stall. In several other recessions, most notably 1970, economic activity picked up weakly and then subsided to their greatest lows. In 1970, labor market conditions accounted for the double-dip. Strong union activity led to rising labor costs during the recession, leading to little inflationary relief and continued high interest rates. The weakness in sales led to a profit squeeze that caused further layoffs.

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Union activity is not important this time. Hourly earnings have rebounded from a 2.5% annualized gain during the first quarter to a 4.4% gain during the spring. However, most of this gain is caused by changes in composition as high wage jobs begin growing again. When the employment cost index is released for the second quarter, it probably will show a rebound from the 4.6% gain from the previous year during the first quarter; but the gains should be slight. Most sectors are continuing to experience wage moderation, although the medical sector, which experienced no recession, also is experiencing no wage cost relief. Our PROJECTIONS indicate that wages will decline as a share of GNP until 1992.

Despite Wall Street concerns that earnings are weaker than expected during the spring, their expectations rather than economic conditions are at fault. In fact, operating profits less tax liability has experienced only a 1% decline since the recession began, an unusually modest profit erosion. Unlike other recessions, where that estimate of profits fell 15-18%, this modest decline is not being reflected in after tax profits. This is because no inventory profits have been earned during the second quarter while changes in tax liabilities have distorted the deductibility of corporate expenses. Also, corporations have been trying to minimize their borrowing rather than restrain production disruptions, the behavior used in previous recessions. Therefore, production has been more quickly reduced to manage inventory investment while layoffs have been used more vigorously. This shift in corporate objectives during recession has led to sharp declines in employment, but also to rare gains in productivity during a recession.

Also, short-term interest rates have declined in line with most other mild recessions. Therefore, interest payments by corporations have fallen as a share of GNP. If both wages and interest rates fall relative to economic activity, profits almost certainly will perform more than normal. Now that activity is expanding again, further layoffs are not necessary. Therefore, profits should rebound nicely.

Nevertheless, a double-dip recession still is possible, if not likely. First, long-term interest rates have not fallen as much as short-term rates. A steepening of the yield curve almost always precedes a recovery, but short term interest rates are almost a half percentage point lower than normal relative to long-term rates. Furthermore, long-term rates have begun drifting upward even as short-term rates have continued to decline. Further gains in long-term rates could dampen housing activity, reduce capital spending, and discourage the Federal Reserve from further reducing short-term rates. Certainly, the sharp slowing in growth of the monetary base and only modest gains in M2 already indicates a hesitant monetary authority. Only two weeks ago, the veterans' administration increased its mortgage rate offering by half a percentage point to 9.5%.

Second, inflation could rise and reduce the purchasing power of households. Sensitive industrial prices as measured by the Journal of Commerce rebounded from 95 to 99 in April and May before again showing little change in June. However, the sensitive prices in the PPI continue to decline once food and energy are excluded. These inflation measures clearly show little likelihood that demand pressures are adding to inflation, as they should not with so much idle capacity. Inventory liquidation early in the recession, however, reduced the need for price concessions near its completion. Thus, inflation appears to be higher at this stage of the recovery than it will prove to be as moderate wage pressures and excess capacity exert their influence upon price constraints.

Of course, commodity inflation always could shock the system. In agriculture, the only shock may be for reduced inflation, as acreage planted to grains and soybeans were considerably higher than originally expected. In most areas, growing conditions are good to excellent. Thus, an agricultural price shock is an increasingly remote condition, as revealed by the CRB index, which reached a four year low during the past week. Energy still could be a problem with the reduction in Soviet supplies. However, the U.S. recession has slowed demand here and some Iraq and Kuwait oil probably will be delivered before the heating season arrives. The spring shortage of gasoline was caused by changes in processing mandated by the EPA for the summer months. Now that summer gasoline is being produced, that shortage has vanished, and prices are falling even earlier in the summer driving season than normal. Thus, any commodity price shock that materializes is more likely to be downward than upward.

Finally, a slump in the market value of financial assets could restrain consumer spending. Clearly, the low savings rate partially reflects the gains in net worth that wealthy households have experienced because of favorable market conditions. They have no need to save as much out of current income to meet their savings objectives. A sharp decline in market values could reverse this gain in consumer spending. Yet, the average age of the auto and light truck on the road is the highest in more than a decade. Even with the modest increase in sales, autos are being liquidated more than 2 million in excess of their replacement. Replacement demand alone should generate a moderate spurt in consumer durable purchases. Therefore, even a market decline might not be sufficient to stall consumer spending, and the recovery.

If long-term interest rates continue to rise, a stock market correction is likely. Furthermore, the worldwide shortage of capital has not eased. Soviet, Middle East and Eastern European demand for capital is not being met by rising savings. In fact, savings has begun to fall in Japan, as their domestic economy becomes stronger. And we have not reduced government borrowing as a share of GNP. Thus, real interest rates are rising throughout the world.

As long as the dollar remains strong, such gains are not needed here. Foreign savings is attracted to American assets if they believe currency changes will favor the dollar even if our interest rates are below those in Germany and Japan. Moreover, the sharp decline in the trade deficit and an apparent rebound in American competitiveness in world markets may cause the dollar to remain strong. Although we see a stumble in the dollar during the fall, the dollar should continue to outperform other currencies into next year. The long-term government bond is expected to yield only slightly more than 8% at the end of this year.

A strong dollar, rebounding profits and moderate long-term interest rates should mean gains in stock values, not declines. To be sure, the surge from January to April has been remarkable. Rising long-term interest rates put the brakes on the market rebound later in the spring. If interest rates are again declining, then a summer rally in equity values is likely. Another market stall is expected in the fall before further gains materialize early next year. Of course, actual equity performances could significantly vary from this projection in any given month, but the model used to generate equity values has been surprisingly robust over time.

Assuming inflation remains subdued, long-term interest rates fall the nearly half percentage point to restore a more normal yield curve, and equity values continue to drift upward; a relapse should not quickly follow this developing economic rebound. On the other hand, if those conditions do not develop, a relapse is likely. We are not out of the woods yet, but all the signs are promising.

onthly Statistical Highlights

	JUNE 1991	JULY 1991	AUGUST 1991
ayroll Employment	74,000	86,000	75,000
ndex of Hours Worked	-0.1	0.1%	0.2%
ousehold Employment	252,000	-14,000	125,000
ivilian Unemployment Rate	6.9%	7.0%	7.0%
ersonal Income	0.5%	0.5%	0.5%
avings Rate	3.7%	3.7%	3.8%
ersonal Consumption	0.4%	0.4%	0.4%
etail Sales	0.6%	0.1%	0.3%
uto Sales	8.8*	8.7*	8.7*
ousing Starts	2.5%	2.8%	1.1%
ousing Permits	-2.1%	1.1%	2.5%
onstruction Expenditures	1.4%	0.6%	0.7%
usiness Inventories	0.1%	0.3%	0.3%
rders for Durable Goods	-1.6%	-0.1%	0.3%
rders - Nondefense Capital Goods	-0.6%	2.6%	-3.6%
ndustrial Production	0.3%	0.4%	0.3%
PI	0.3%	0.3%	0.3%
PI	0.1%	0.1%	0.1%
onsumption Deflator	0.2%	0.2%	0.3%
eading Indicators	0.3%	0.2%	0.2%
urrency Index	4.7%	0.8%	-1.8%
quity Index	1.3%	3.3%	-2.0%
eal GNP (annual rate)	4.1%	2.6%	0.3%
1 (annual rate)	8.3%	4.1%	7.5%
2 (annual rate)	1.8%	5.9%	4.9%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Payroll employment rebounded 59,000 in May while the workweek also expanded. As a result, the index of hours worked increased a strong 0.8%. The diffusion index showed a less impressive, but nonrecessionary 52% of all industries hiring. The hourly earnings index continued to accelerate, but probably because of changes in the composition of high wage earners. This generally strong report was marred by a sharp drop in the household estimate of employment, which led to a substantial gain in unemployment. Indeed, the May household employment level was the lowest of the recession. Nevertheless, sampling problems rather than other factors probably accounted for the discrepancy. Some rebound in household employment certainly is expected for June.

Although the memorial day holiday distorted the **initial unemployment claims**, the latest claims are not holiday impaired and they show a nonrecessionary 431,000 claims. This is consistent with a 10,000 weekly gain in payroll employment. Thus, employment is not surging, but it is improving. Also, the latest insured unemployment rate is slightly below recessionary highs, suggesting no further increase in unemployment at this time.

PERSONAL INCOME AND OUTLAYS-Despite some increase in earnings in goods producing industries, wages and salaries increased a modest 0.6% in May. Modest gains in the government and distributive industries accounted for this unexpectedly modest gain. Farm income continues to deteriorate, and may fall further if crops continue to develop well. (Low price elasticities mean that production leads to reduced prices and earnings.) Property income continues to fall, although interest income soon should stabilize now that short-term interest rates appear to be stabilizing. The sharp savings decline in May suggests that some consumption for utilities was involuntary and will be reversed when weather permits.

The rebound in consumer spending was widespread. Auto sales are rebounding, if only modestly. Furniture sales have increase in the past two months. Nondurables remain sluggish, although clothing sales were strong in May, possibly because of early summer weather. Dining out remains sluggish, however. Utility consumption clearly impacted services expenditures as did improving volumes on financial markets. Those gains clearly will not be sustained. Nevertheless, consumption is rebounding and should continue to improve modestly into the summer. A slight discrepancy has developed between retail durable sales and consumer durable expenditures. Apparently, seasonal factors are different for the two series, as expenditures fell more than retail sales during the winter and have now rebounded less than retail activity.

Consumption gains in the third quarter will not sustain spring gains because of the low savings rate during the spring, the involuntary utility purchases and the rebound from the dismal January that impacted the first quarter.

CONSTRUCTION-Higher interest rates already appear to be slowing **housing starts.** Apartment activity reached its lowest level since records began in 1963. However, apartment permits have increased for several months. This suggests that some permits are being banked to avoid tightening regulations in some markets, such as Florida, while builders also may be struggling to finance their projects. This apartment level is so low that some rebound is expected. The percentage gains are large, but they are from an unusually small base. During May, If interest rates ease, as expected here, housing should continue to rebound well into next year.

Residential expenditures should lead total construction upward during the recovery. Public construction also appears to be recovering from a sharp slump during the winter months. Although a rebound also is expected for nonresidential construction, this is less likely. However, a rebound in April indicates that some builders are receiving financing for commercial, industrial and retail activity, all of which rose that month.

The construction deflator rebounded in April, and may show further gains because of the surge in lumber costs following the spotted owl decision. (Prices have surged 30% in the past two months.) Other construction prices remain modest, but the higher cost of lumber materials could undermine the construction rebound if it continues.

BUSINESS ACTIVITY-Despite reduced backlogs, manufacturing activity continues to rebound. Perhaps, a smaller backlog will be the norm in this just-in-time manufacturing environment. At any rate, the sharp spring slump in orders for nondefense capital goods has not impacted shipments, which generates jobs. Moreover, inventories continue to be liquidated at all stages. Thus, the shipments do not merely reflect the completion of long-lived projects. Even so, the typical lag between economic recovery and capital spending should also be present in this recovery. Therefore, orders should remain modest, and shipments will be slow until more orders develop.

Business inventories have been reduced more rapidly at the retail level during the spring than in the winter. This had to be done, because retail inventories remained high relative to sales until sales began to improve. Even so, inventories will add little to production during the spring but then will be a significant contributor in the summer and fall.

Excluding utilities, industrial production only gained 0.2% in May. A modest portion of that was in autos, where passenger cars were assembled at 5.4 million while trucks were produced at 3.3 million. With domestic autos selling at 6.5 million, further gains in production of consumer goods are likely. Also, industrial material production should pick up because of low inventories while utility production will subside as more seasonal weather surfaces. Capacity continues to expand at 2.5%, leading to only a modest gain in utilization rates into 1992. This will restrain capital spending, but it also will restrict any significant price gains.

PRICES-Except for the spotted owl and its impact upon lumber prices, fear of inflation is difficult to justify. Consumer prices have slowed perceptively, especially in the service sector. This normally slow to respond sector strongly suggests that underlying inflation is not intensifying. Everyone who worries about inflation is concerned that prices have not moderated as much as in other recessions. Of course, with inventory overhangs a smaller part of this recession, commodity prices should not have been expected to fall a great deal. Low capacity utilization will prevent accelerating prices early in the recovery. Thus, the **GNP deflator** should grow about half a percentage point less during the first year of recovery than during the recession. Consumer and producer prices should slow a full percentage point. This price moderation already is apparent through May in the components of the consumption deflator.

MISCELLANEOUS-Although information remains incomplete for May, production may have rebounded sharply in that month. The industrial production and coincident indicators indices do not show a sharp rebound, but the surge in consumption, reduced inventory liquidation, increased manufacturing shipments, and some construction gains all suggest that activity rebounded sharply. Because of this gain, GNP should increase slightly after inflation during the spring. Despite the May surge, activity is expected to grow modestly in the first year of recovery.

The **leading indicators** have rebounded strongly with all the variables except expectations related ones showing gains in May. Contrary to press reports, the leading indicators are only a few months ahead of an economic rebound, although they may lead the downturn by up to a year or more. A rebound in the coincident indicators may confirm that the recovery began in May.

A sharp improvement in **merchandise trade** along with a dollar shortage caused by pledges for the Persian Gulf Crisis has stimulated the dollar. As recovery begins, imports should rebound. However, the trade sector performed dramatically differently in this recession compared to the 1982 decline. In that former decline, imports actually rose, suggesting that American producers could not compete even in the United States. During this recession, imports fell sharply while exports expanded. Although a non-synchronized world cycle accounted for much of this difference, imports clearly fell more sharply than domestic production. At least in the United States, American producers have restored their competitiveness. This suggests that some of that trade improvement should persist unless the dollar becomes too strong.

FINANCIAL MARKETS

The government deficit will be a record this year, but the increase in government borrowing is mild for a recession. As the economy recovers, some decline in government borrowing should be expected. The deficit this year is projected to be $290 billion, of which more than $50 billion is the result of the savings and loan bailout. Thus, the operating deficit of the government is only slightly higher than the 1986 record deficit. As a result, some government restraint in spending is developing. As the economy recovers, government borrowing for operating purposes should fall, allowing some relief in heavy government supplies of bonds that have materialized. (Borrowing for the thrift bailout does not have the same impact as the government is taking over assets that were in the private sector with this borrowing. Thus, depositors have more funds because of the government borrowing, causing a shift in asset ownership but no change in domestic net savings.)

Of course, the end to inventory liquidation has increased corporate borrowing. However, some profit gains are being generated. Certainly corporate cash flow is improving. Corporations also are maintaining their capital appropriations, thus leading to increased use of funds. Corporate rather than government borrowing has been responsible for the uptick in interest rates this spring. Further corporate borrowing pressure is likely, but not as much as in the spring.

The household sector also substantially reduced savings while modestly increasing housing purchases. This led to reductions in the household supply of funds to credit markets. With both the corporate and household sector reducing their net savings, rising interest rates should not have been surprising. However, housing investment should grow slowly while household savings should rebound from low second quarter levels. Therefore, some moderation in interest rates is likely during the second half of this year.

A strong dollar also has encouraged capital flows into the United States. Some liquidation of financial positions occurred in June as falling equity values in Japan increased the dollar portion of their portfolios. If that market stabilizes, the strong dollar should again prevail, causing further capital flows into the United States. This could be reversed during the fall, when interest rates might begin drifting upward, but reduced government supply at that time may be enough to prevent rising interest rates until next year.

A review of the sources and uses of funds shows why interest rates rose during the spring. Also, that methodology suggests that interest rates should fall during the summer and stabilize in the fall before rising next year. Since the Federal Reserve will retain current short-term interest rates, these changes should be observed on the long-end of the market. No substantial interest rate reductions are expected during the summer, but a decline toward 8% yield for the government long bond is expected.

EQUITY MARKETS-Despite downward revisions in after tax profits for the first quarter, operating profits less tax liabilities improved significantly. Coupled with a sharp drop in long-term interest rates, a substantial rebound in stock values was assured. Only a dip in currency markets prevented all indicators from flashing strong go signals. In the spring, rising interest rates stalled the recovery in equity values despite further projected profit gains and sharp gains in the dollar. Even so, equity values increased significantly from first quarter levels. During the summer, all factors should again be favorable for equity values. Indeed, technicians might be surprised with values in excess of the 3100 they are projecting for the Dow. Our model continues to show modest gains early next year despite rising interest rates.

Currently, multi-national and capital goods stocks, including technology issues, should be avoided. The medical sector should remain moderately weighted but no increase in their importance should be encouraged. This is because that sector has not experienced a recession and should not show the large recovery gains that cyclicals and discretionary consumer stocks will show. Some apparel and restaurant holdings should be included in those discretionary items.

Cyclical issues should do well, but the recovery already is apparent. Therefore, most of the returns expected in a recovery already are in the values of those holdings. Some of the metals and fibers, which are lagging other cyclicals, should do well. Some of the utilities could again rebound as interest rates ease into the fall. However, only a secondary gain is expected there.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
January 1991	109418		121.3		116922		6.1	10.18	
February	109160	-2.4	121.5	-5.4	116918	-2.4	6.4	10.20	2.5
March	108902		120.9		116754		6.8	10.24	
April	108722		120.0		117398		6.6	10.28	
May	108781	-1.4	121.1	-1.7	116591	0.3	6.9	10.32	4.4
June	108855 *		121.0 *		116843 *		6.9 *	10.35 *	
July	108941		121.1		116827		7.0	10.39	
August	109016	0.9	121.3	1.9	116952	0.0	7.0	10.42	4.2
September	109127		121.4		117053		6.9	10.46	
October	109246		121.6		117126		7.0	10.49	
November	109322	1.1	121.8	1.8	117243	1.0	6.9	10.53	4.0
December	109416		122.0		117328		7.0	10.56	
January 1992	109516		122.1		117405		7.1	10.60	
February	109628	1.0	122.3	1.7	117554	1.0	6.9	10.64	4.2
March	109679		122.5		117627		6.9	10.67	
April	109793		122.6		117624		7.0	10.71	
May	109904	1.1	122.7	1.3	117813	0.9	6.9	10.74	4.1
June	110043		122.8		117942		6.8	10.78	
Chng Jun(92)/Jun(91)		1.1		1.5		0.9	0.8 #		4.2
Chng Jun(91)/Jun(90)		-1.5		-2.9		-1.2	0.6 #		3.2

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	4.724		2.741		191.3		4.009		3.818	
February	4.733	1.6	2.742	0.3	169.8	-7.8	4.019	1.7	3.850	2.1
March	4.750		2.746		145.1		4.035		3.890	
April	4.755		2.750		163.1		4.038		3.875	
May	4.779	3.7	2.766	3.0	144.4	-33.3	4.061	3.9	3.916	5.8
June	4.801 *		2.774 *		149.9 *		4.080 *		3.930 *	
July	4.823		2.788		152.9		4.098		3.945	
August	4.846	5.8	2.802	5.8	155.9	6.5	4.117	5.8	3.961	5.8
September	4.869		2.817		155.9		4.136		3.980	
October	4.894		2.831		154.9		4.157		4.002	
November	4.922	6.4	2.848	6.6	158.7	10.1	4.181	6.3	4.022	6.1
December	4.948		2.863		162.3		4.203		4.040	
January 1992	4.972		2.877		164.7		4.224		4.059	
February	5.000	6.5	2.894	6.6	174.1	37.3	4.252	6.8	4.078	5.8
March	5.025		2.908		176.4		4.274		4.097	
April	5.051		2.923		178.6		4.295		4.117	
May	5.074	6.2	2.935	6.1	178.4	16.7	4.314	6.2	4.136	5.8
June	5.099		2.950		178.4		4.334		4.156	
Chng Jun(92)/Jun(91)		6.2		6.4		19.0		6.2		5.8
Chng Jun(91)/Jun(90)		3.5		2.3		-17.1		3.5		4.5

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.
# is the percentage change in the labor force

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	3707.8		440.3		1205.8		2061.7		2643.1	
February	3740.0	1.9	453.5	-12.3	1215.3	-1.2	2071.2	6.9	2660.0	-1.5
March	3780.7		472.2		1217.0		2091.5		2688.2	
April	3765.6		453.2		1209.5		2102.9		2671.1	
May	3806.6	6.0	466.1	7.2	1219.8	1.8	2120.7	8.2	2694.0	3.7
June	3820.0 *		470.5 *		1224.9 *		2124.6 *		2698.5 *	
July	3835.4		469.4		1228.5		2137.5		2703.1	
August	3851.4	5.9	470.5	7.3	1232.1	4.5	2148.9	6.4	2706.8	3.0
September	3870.2		474.6		1233.9		2161.7		2713.7	
October	3892.0		478.5		1238.7		2174.8		2723.0	
November	3911.8	6.3	481.2	8.4	1244.0	4.0	2186.5	7.1	2729.6	3.1
December	3930.2		483.5		1248.5		2198.2		2734.1	
January 1992	3949.0		484.8		1252.9		2211.4		2738.9	
February	3967.8	5.9	487.7	5.3	1255.7	4.1	2224.3	7.1	2744.6	2.3
March	3986.9		489.6		1260.6		2236.7		2749.8	
April	4006.3		492.9		1264.8		2248.6		2754.9	
May	4025.2	5.9	494.9	6.8	1268.9	4.0	2261.3	6.9	2759.2	2.3
June	4045.3		498.5		1272.5		2274.2		2765.2	
Chng Jun(92)/Jun(91)		5.9		5.9		3.9		7.0		2.5
Chng Jun(91)/Jun(90)		5.1		-2.3		3.1		7.1		0.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	147.81		21.71		7.6		96.91		29.19	
February	151.10	-1.7	22.48	1.1	8.3	-30.1	97.86	-1.1	30.76	-5.9
March	151.47		22.58		8.7		97.74		31.15	
April	150.92		22.76		7.9		97.22		30.94	
May	152.47	5.8	23.03	12.6	8.4	8.4	98.02	1.6	31.42	15.0
June	153.40 *		22.99 *		8.8 *		98.43 *		31.98 *	
July	153.56		23.05		8.7		98.72		31.79	
August	153.97	4.8	23.18	3.9	8.7	11.6	99.01	4.5	31.78	6.3
September	154.60		23.21		8.4		99.16		32.23	
October	155.44		23.33		8.6		99.54		32.57	
November	156.19	5.6	23.42	4.7	8.7	4.7	99.97	4.0	32.80	11.1
December	156.81		23.49		8.8		100.33		32.99	
January 1992	157.31		23.56		8.8		100.68		33.07	
February	157.89	4.6	23.70	4.8	8.9	7.9	100.91	4.1	33.28	5.7
March	158.50		23.81		8.9		101.30		33.39	
April	159.22		23.88		9.0		101.64		33.70	
May	159.79	5.0	23.97	4.9	9.1	12.6	101.97	4.0	33.85	8.1
June	160.50		24.08		9.3		102.26		34.16	
Chng Jun(92)/Jun(91)		4.6		4.7		5.7		3.9		6.8
Chng Jun(91)/Jun(90)		2.2		1.3		-11.2		2.6		1.0

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CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	0.847		0.648		0.199		0.802	
February	0.992	-41.0	0.788	-27.3	0.204	-70.1	0.876	-17.3
March	0.907		0.742		0.165		0.892	
April	0.981		0.807		0.174		0.913	
May	0.982	36.8	0.832	69.2	0.150	-46.4	0.979	51.2
June	1.007 *		0.845 *		0.162 *		0.958 *	
July	1.035		0.862		0.173		0.969	
August	1.046	21.3	0.870	19.5	0.176	31.1	0.993	17.3
September	1.036		0.865		0.171		1.004	
October	1.044		0.866		0.178		1.015	
November	1.071	11.5	0.882	7.0	0.189	36.4	1.023	15.1
December	1.088		0.893		0.195		1.034	
January 1992	1.105		0.902		0.203		1.041	
February	1.106	16.4	0.905	10.5	0.201	47.2	1.045	10.1
March	1.116		0.901		0.215		1.061	
April	1.134		0.913		0.221		1.078	
May	1.153	14.7	0.925	7.7	0.228	49.1	1.089	15.4
June	1.156		0.921		0.235		1.095	
Chng Jun(92)/Jun(91)		14.8		9.0		45.1		14.3
Chng Jun(91)/Jun(90)		-12.8		-5.1		-45.5		-15.1

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	130.7		103.6		161.7		396.0		358.4	
February	132.7	-7.5	110.1	-15.8	154.7	-26.8	397.5	-17.9	359.7	-17.3
March	127.0		108.1		154.1		389.2		353.5	
April	131.3		107.9		155.1		394.3		356.5	
May	130.3 *	2.5	109.0 *	6.0	156.7 *	1.8	396.0 *	3.2	359.0 *	2.8
June	131.2		109.6		160.8		401.6		363.4	
July	131.5		110.2		162.4		404.1		365.0	
August	131.2	1.7	110.5	6.7	164.9	19.1	406.6	9.8	367.0	8.3
September	131.8		111.1		166.4		409.3		368.8	
October	132.5		111.5		166.9		410.9		369.5	
November	132.8	2.7	112.2	5.7	168.1	10.4	413.1	6.6	370.9	4.5
December	131.8		112.7		171.1		415.6		372.7	
January 1992	132.4		113.5		174.4		420.3		376.0	
February	132.8	1.2	113.2	5.0	176.6	19.7	422.6	9.5	377.3	7.2
March	133.1		113.8		178.3		425.2		379.3	
April	133.5		114.6		180.0		428.1		382.3	
May	133.9	3.7	115.3	6.0	182.2	13.2	431.4	8.2	385.2	7.9
June	134.5		115.6		183.7		433.8		387.0	
Chng Jun(92)/Jun(91)		2.5		5.5		14.2		8.0		6.5
Chng Jun(91)/Jun(90)		-6.4		-1.7		-15.1		-9.0		-9.4

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	388.4		117.79		33.96		31.72	
February	388.5	-3.2	117.55	-18.8	33.76	-32.2	32.21	-18.1
March	386.0		112.12		31.94		31.41	
April	385.3		116.15		28.75		31.73	
May	384.9 *	-2.4	120.53	9.4	29.95	-37.9	32.06	2.9
June	385.6		118.65 *		29.76 *		32.23 *	
July	386.7		118.53		30.52		32.07	
August	387.8	2.7	118.84	2.2	29.42	9.2	32.09	1.7
September	389.0		119.91		30.48		32.27	
October	391.3		119.42		30.93		32.15	
November	393.2	5.6	118.81	1.4	30.72	10.3	32.41	1.7
December	395.0		120.26		31.01		32.28	
January 1992	396.8		120.49		31.47		32.56	
February	397.9	5.0	118.83	0.8	31.42	9.5	32.71	3.7
March	399.2		119.92		31.89		32.46	
April	401.0		120.23		32.16		32.72	
May	402.8	4.8	120.89	3.4	32.49	12.3	32.89	4.1
June	404.1		121.12		32.91		33.11	
Chng Jun(92)/Jun(91)		4.8		2.0		10.6		2.7
Chng Jun(91)/Jun(90)		0.3		-6.6		-8.4		-1.3

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	831.4		8.20		106.6		80.0	
February	828.2	0.4	8.57	-18.9	105.7	-9.6	79.1	-11.8
March	819.6		8.57		105.0		78.4	
April	815.2		8.86		105.3		78.5	
May	814.7 *	-5.3	8.43	7.1	105.8	-0.1	78.7	-2.7
June	815.6		8.49 *		106.1 *		78.7 *	
July	818.1		8.63		106.5		78.8	
August	820.6	2.6	8.66	3.1	106.8	4.2	78.9	1.4
September	822.7		8.69		107.2		79.0	
October	826.6		8.65		107.6		79.1	
November	830.3	4.9	8.60	-3.0	108.0	4.2	79.2	1.4
December	834.3		8.53		108.2		79.2	
January 1992	837.8		8.56		108.4		79.2	
February	841.2	5.4	8.62	-0.8	108.6	2.6	79.2	0.2
March	844.9		8.55		108.9		79.2	
April	848.0		8.59		109.1		79.2	
May	851.3	4.9	8.62	2.7	109.4	2.7	79.3	0.3
June	855.2		8.69		109.6		79.3	
Chng Jun(92)/Jun(91)		4.9		2.4		3.3		0.8
Chng Jun(91)/Jun(90)		0.4		-6.2		-3.6		-6.2

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	134.8		122.0		119.3		134.4	
February	135.1	3.5	121.3	-3.2	115.2	-14.4	134.8	5.2
March	135.0		120.9		115.1		135.2	
April	135.3		121.1		115.5		135.6	
May	135.6	1.9	121.8	0.8	116.1	-2.6	136.1	3.7
June	135.9 *		122.0 *		115.7 *		136.5	
July	136.2		122.2		116.3		136.9	
August	136.6	2.8	122.4	2.6	116.9	1.6	137.2	3.5
September	136.9		122.7		115.5		137.5	
October	137.2		122.9		117.1		138.0	
November	137.6	3.0	123.1	2.4	117.4	4.1	138.4	3.5
December	138.0		123.5		117.7		138.8	
January 1992	138.4		123.8		118.0		139.2	
February	138.8	3.5	124.1	3.1	118.1	2.5	139.7	3.7
March	139.2		124.4		118.3		140.1	
April	139.6		124.7		118.6		140.4	
May	140.0	3.6	125.0	3.1	118.8	2.3	141.0	3.7
June	140.4		125.3		119.0		141.4	
Chng Jun(92)/Jun(91)		3.3		2.7		2.9		3.6
Chng Jun(91)/Jun(90)		4.5		3.7		2.1		4.2

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	140.3		112.4		135.4		151.5		110.5	
February	140.6	3.5	113.1	0.8	135.3	0.8	152.2	4.7	110.5	-1.0
March	140.6		113.4		134.9		152.7		110.1	
April	141.0		112.9		135.1		153.0		110.6	
May	141.3	2.2	113.5	1.4	135.4	0.5	153.4	3.4	110.3	0.4
June	141.6 *		113.7 *		135.6 *		153.8 *		110.5	
July	141.9		113.8		135.7		154.3		110.7 *	
August	142.3	2.8	114.0	2.3	136.0	1.9	154.8	3.6	110.8	1.3
September	142.6		114.2		136.3		155.2		111.0	
October	142.9		114.5		136.5		155.6		111.2	
November	143.3	3.0	114.7	2.6	136.8	2.5	156.1	3.5	111.4	1.9
December	143.7		115.0		137.2		156.6		111.5	
January 1992	144.2		115.2		137.6		157.1		111.8	
February	144.6	3.5	115.4	2.3	137.9	3.3	157.6	3.9	112.0	2.2
March	145.0		115.6		138.3		158.1		112.1	
April	145.4		115.9		138.7		158.6		112.0	
May	145.9	3.6	116.2	2.7	139.0	3.2	159.2	4.0	112.0	0.2
June	146.3		116.4		139.4		159.7		112.1	
Chng Jun(92)/Jun(91)		3.3		2.4		2.8		3.8		1.4
Chng Jun(91)/Jun(90)		4.4		1.5		4.3		4.6		0.3

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
January 1991	-7.38		138.7		5548		4128		5.6
February	-5.50	-25.8	140.2	-11.4	5562	2.5	4126	-2.6	13.4
March	-4.07		141.4		5548		4103		10.5
April	-4.78		142.0		5559		4100		2.3
May	-4.93 *	39.8	143.1	8.1	5614	4.0	4126	0.3	-1.8
June	-5.22		143.5 *		5649		4140		-4.6
July	-5.20		143.8		5679		4149		-7.5
August	-5.56	-38.3	144.0	3.2	5695	6.5	4150	2.9	-8.7
September	-5.43		144.2		5715		4156		-10.6
October	-5.78		144.6		5766		4178		-13.0
November	-5.93	-38.1	144.8	2.4	5790	6.8	4184	3.2	-11.6
December	-5.84		145.2		5816		4191		-11.8
January 1992	-5.52		145.3		5849		4203		-12.4
February	-5.29	30.7	145.6	2.1	5877	6.0	4206	2.2	-12.4
March	-5.20		146.0		5901		4213		-13.1
April	-5.27		146.2		5927		4221		-12.4
May	-5.18	11.5	146.5	2.3	5957	5.8	4225	2.0	-12.4
June	-5.08		146.7		5993		4240		-13.1
Chng Jun(92)/Jun(91)		2.7		2.2		6.1		2.4	
Chng Jun(91)/Jun(90)		21.3		-1.8		3.5		-0.6	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	83.51		167.4		8.27		177.95	
February	82.12	-19.0	171.8	23.2	8.03	-11.4	197.75	54.2
March	88.12		174.0		8.29		203.57	
April	89.67		171.4		8.21		207.71	
May	91.17	40.5	174.9	8.1	8.27	6.3	206.93	34.9
June	95.42 *		177.0		8.49 *		209.63 *	
July	96.23		178.1		8.34		216.57	
August	94.47	14.8	178.7	10.5	8.38	-1.3	212.25	17.3
September	95.28		179.8		8.17		220.92	
October	92.11		180.9		8.24		213.02	
November	91.46	-9.4	182.7	8.1	8.33	-2.1	211.36	0.1
December	95.43		183.6		8.19		225.48	
January 1992	94.27		184.2		8.36		218.84	
February	96.62	12.1	185.6	6.3	8.45	9.5	223.65	8.7
March	96.21		185.9		8.52		221.14	
April	96.89		186.7		8.55		222.95	
May	97.43	7.1	188.9	7.2	8.53	5.8	227.38	8.5
June	97.76		189.8		8.61		227.04	
Chng Jun(92)/Jun(91)		2.5		7.2		1.4		8.3
Chng Jun(91)/Jun(90)		3.2		-1.0		0.4		6.6

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	326.8		826.8		3331.0		6.91		6.28	
February	332.8	14.9	836.3	6.0	3354.3	3.6	6.25	-52.7	6.20	-40.0
March	334.4		843.0		3375.0		6.12		5.92	
April	333.3		842.2		3382.9		5.91		5.71	
May	334.6	4.0	851.9	7.5	3396.1	4.9	5.78	-32.6	5.61	-26.1
June	335.8 *		857.6 *		3401.2 *		5.78 *		5.74 *	
July	336.8		860.5		3417.6		5.73		5.71	
August	337.9	4.2	865.7	6.9	3431.2	4.6	5.76	-4.5	5.63	-1.2
September	339.3		868.6		3446.7		5.78		5.67	
October	340.6		873.6		3461.2		5.78		5.72	
November	342.1	5.0	878.9	6.7	3475.3	5.2	5.83	7.4	5.80	9.5
December	343.8		884.6		3490.2		5.97		5.88	
January 1992	345.0		887.0		3505.6		6.02		6.03	
February	346.3	5.0	891.4	5.8	3520.7	5.3	6.05	14.4	6.01	16.8
March	347.8		896.3		3536.2		6.11		6.05	
April	349.1		900.7		3550.4		6.07		6.03	
May	350.5	4.8	905.3	6.3	3566.8	5.3	6.05	0.4	5.98	-1.5
June	351.7		909.5		3583.1		6.08		6.01	
Chng Jun(92)/Jun(91)		4.7		6.0		5.3		5.2		4.7
Chng Jun(91)/Jun(90)		9.8		5.7		3.4		-30.3		-24.8

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	9.04		7.08		7.10		7.17		9.52	
February	8.83	-14.7	6.91	-11.4	6.49	-48.7	6.60	-48.4	9.05	-28.7
March	8.93		7.10		6.41		6.45		9.00	
April	8.86		7.02		6.07		6.06		9.00	
May	8.86	-0.7	6.95	0.2	5.92	-33.4	5.91	-36.9	8.50	-20.9
June	9.03 *		7.13 *		6.08 *		6.05 *		8.50 *	
July	8.93		7.04		5.96		5.98		8.50	
August	8.96	-0.7	7.06	-1.5	5.87	-9.0	5.95	-3.5	8.50	-7.5
September	8.81		6.92		5.82		5.93		8.50	
October	8.85		6.95		5.93		6.01		8.50	
November	8.93	-0.3	7.01	-1.5	6.12	13.6	6.19	13.6	8.78	12.8
December	8.90		6.98		6.17		6.24		9.00	
January 1992	8.98		7.04		6.25		6.33		9.00	
February	9.07	7.9	7.12	7.7	6.23	12.2	6.38	14.1	9.00	11.4
March	9.14		7.17		6.27		6.35		9.00	
April	9.21		7.23		6.32		6.41		9.00	
May	9.20	6.8	7.24	7.7	6.30	4.6	6.42	5.1	9.00	0.0
June	9.23		7.26		6.34		6.47		9.00	
Chng Jun(92)/Jun(91)		2.2		1.8		4.3		6.9		5.9
Chng Jun(91)/Jun(90)		-2.5		-1.5		-25.3		-26.5		-15.0

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D18c-3

ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS

July 1991

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For Release: Monday, August 5, 1991

RECOVERY IS NOT YET SUSTAINED

Declining manufacturing orders, weak construction gains, auto sales that are going nowhere after a May spurt, and employment that shows no trend all suggest that this recovery has not yet found an engine to pull it along. Rising taxes and falling expenditures at budget strapped state and local governments and no substantial initiatives from the Federal government mean that government budgetary policy is not supporting this recovery. However, the Federal Reserve's mistaken belief that a self-sustaining recovery already has begun has led to preservation of interest rate targets despite weakness in money demand. The result has been a drop in real money balances that further threatens support for expansion. In short, this recovery is in jeopardy.

It now is clear that changing seasonal weather patterns rather than a confident consumer accounted for much of the spring spending surge. (The remainder of that surge merely reflected a reversal of the "CNN effect", when everyone was watching television in January instead of spending.) Moreover, the consumer does not have the spending power to support this expansion.

Normally, consumers have already built a savings pool before the recovery begins. Therefore, as soon as jobs become available, the renewed consumer confidence leads to amplified spending that propels the economy upward. With the savings rate at 3.5%, that pool of savings simply is not available. Of course, if job growth was strong enough, such reduced savings would not be a hindrance to recovery. Yet, only the reduction of inventory liquidation is accounting for any job gains at this time. This explains why the initial claims and industrial production are responding in a normal recovery fashion while the remainder of the economy remains in the doldrums.

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For example, the July **EMPLOYMENT SITUATION** showed a decrease of 51,000 jobs despite a gain of 27,000 production worker jobs in manufacturing. (Cost cutting removed 14,000 non-production jobs in manufacturing during the month.) Most of the weakness was in other services, which include consultants, lawyers, and a host of other service related activities. To further compound the weakness, hours worked contracted along with hourly earnings. Indeed, **real earnings** probably plunged by 1.5%. An economic recovery is not made upon this base of earnings.

If interest rates were lower, the inventory liquidation would be less intense, leading to more near term job growth. Of course, inventory adjustments only last a few months, but reduced interest rates might stimulate housing more and lead to stability in the nonresidential construction sector. As a result, construction jobs would not continue to fall, as they currently are. While lower interest rates would weaken the dollar, the near-term inflationary fallout from a dollar decline is not significant. On the other hand, the improved competitiveness of American goods abroad would further increase manufacturing shipments. Thus, a more aggressive Federal Reserve policy might lead to enough job growth to ensure that this recovery persists despite the anemic purchasing power held by households.

Certainly, the manufacturing sector cannot continue to expand if orders continue to lag shipments. Not only have aircraft orders fallen behind shipments, but orders other than transportation equipment has been trailing shipments by nearly $2 billion per month in recent months. In the absence of any surge in orders, manufacturing gains soon will end.

To be sure, tight Federal Reserve policy at the present time will restrain inflationary pressures. The best time to preserve reduced inflation is in the early phases of recovery. However, inflation normally is generated by economic stress (an economy growing rapidly or reaching bottlenecks) not by growth itself. As the workweek lengthens while unemployment remains high, wage inflation normally recedes in the early months of an economic expansion. Although aided by the collapse of oil prices, the lowest wage inflation during the previous expansion occurred in 1986 when hourly earnings were only 1.8% above previous year levels. Hourly earnings rose to a high of 4.2% above previous year levels in 1990 but has contracted to a gain of 3.5% in the latest month.

The employment cost index has continued to moderate from previous year levels and currently is 4.6% above previous year levels. While this index no longer is moderating, neither is it intensifying. In fact, hourly earnings continue to ease but rising benefit costs are offsetting these gains. Certainly, high unemployment rates could further reduce wage inflation, but the social costs of such a policy should restrain anyone from pursuing it.

No commodity inflation is in sight. Petroleum prices are where they were a year ago, when Iraq invaded Kuwait. Sluggish growth worldwide and the prospects of increased production from the Middle East suggest that oil prices will remain subdued for the next few years. Some weather problems exist in the midwest, but the net effect of hot, dry weather appears to be average rather than record yields for corn and soybeans. Some suffocation of poultry has developed and hog weights have been impacted by the weather, but these conditions are not serious for agricultural production at this time. Indeed, the number of cattle at feedlots and the number of farrowing pigs are higher than in past years.

Furthermore, prices have been easing at the earliest stages of processing. Lumber prices have surged because of the spotted owl controversy, but few other industrial prices are showing any strength. Crude material prices other than food and energy are 8% below previous year levels. The Journal of Commerce index of sensitive prices reversed a modest advance about a month ago and have been declining ever since. Before the hot weather reversed grain prices, the CRB index had been recording new lows. Also, two of the three price related variables in the leading indicators have been falling for several months (sensitive prices and real money stock. The third, delivery delays, has been increasing as inventory liquidations persist.) In short, an outbreak of inflation is unlikely anytime soon.

Indeed, until the weakness of economic activity was highlighted by employment conditions in July, the dollar was strong against most major currencies. Although currency impacts upon inflation are delayed for more than a year and only occur if the currency movement persists, the dollar's strength prevents any inflation from being imported.

Frankly, the policy prescription is easy. The recovery is stumbling and is far from assured. On the other hand, inflation is continuing to recede. At the sensitive level, deflation has returned. More stimulus to insure that the recovery does not stumble into a double-dip is the only responsible course.

Monthly Statistical Highlights

	JULY 1991	AUGUST 1991	SEPT 1991
Payroll Employment		68,000	86,000
Index of Hours Worked		0.5%	0.2%
Household Employment		31,000	78,000
Civilian Unemployment Rate		6.9%	6.9%
Personal Income	-0.2%	0.5%	0.3%
Savings Rate	3.3%	3.5%	3.4%
Personal Consumption	0.1%	0.4%	0.4%
Retail Sales	-0.2%	0.3%	0.3%
Auto Sales	8.8*	9.0*	9.2*
Housing Starts	1.4%	1.1%	0.7%
Housing Permits	-2.6%	0.6%	1.2%
Construction Expenditures	0.1%	0.5%	0.7%
Business Inventories	-0.0%	0.1%	0.3%
Orders for Durable Goods	0.9%	0.5%	1.6%
Orders - Nondefense Capital Goods	0.9%	1.0%	0.7%
Industrial Production	0.4%	0.4%	0.2%
CPI	0.2%	0.2%	0.3%
PPI	-0.2%	0.1%	0.2%
Consumption Deflator	0.3%	0.2%	0.3%
Leading Indicators	0.1%	0.0%	0.2%
Currency Index	-1.0%	-3.0%	-0.2%
Equity Index	0.1%	1.3%	-0.4%
Real GNP (annual rate)	1.5%	4.4%	6.2%
M1 (annual rate)	2.8%	8.1%	9.2%
M2 (annual rate)	-2.4%	3.9%	5.3%

* auto sales in millions

COMMENTARY

EMPLOYMENT-After losing 21,000 jobs in June, payroll employment fell another 51,000 in July. In June, however, the workweek soared while hourly earnings also rose. As a result, the index of hours worked increased a strong 0.7% and wage earnings increased 1.1%. This improved the ability to spend, leading to a 0.4% gain in real spending. Moreover, manufacturing employment improved. Manufacturing employment also grew in July, with production workers gaining 27,000 jobs (offset by a 14,000 decrease in support workers). Also, more industries recorded employment gains than declines. Also, unemployment fell, but this was because a decrease in service jobs discouraged women and teenagers from searching for work. All the other news in the report was unequivocally bad. The workweek fell, hours worked in the private economy sagged, leading to a sharp 1.4% decline in hours worked and hourly earnings fell slightly. While this latter statistic reduces the fear of wage induced inflation, the reduction in earning power will cause a decline in savings in July from already low levels even as real consumption levels fall. These are conditions that lead to recession not to recovery.

One positive way of reviewing this employment pattern is to argue that the adverse multiplier effect from previous declines in goods production are being reflected in the reduction in service jobs. As manufacturing jobs continue to expand, a new positive multiplier should surface soon. However, this expansion in manufacturing jobs also is questionable. In past years, plant closings in autos, textiles and apparel for model changeover or vacation purposes naturally reduced employment in those industries. Seasonal factors may still be anticipating such closures. However, the auto industry has diminished its fall model year introductions while weather conditions no longer impact textile and apparel production (the plants are climate controlled). Therefore, most of the manufacturing gains could be illusory and will vanish after August.

At this time, we are assuming the manufacturing gains reflect inventory rebuilding (textile inventories fell sharply in the past two months) and export orders. Therefore, they should be sustained for several more months. If so, payroll gains should reappear in the next few months. However, such **PROJECTIONS** create an anomaly for an economic expansion. Hours worked are projected to grow more slowly than employment. In the early phases of an expansion, the reverse is true. Indeed, the index of hours worked is expected to grow more slowly in the summer than during the spring. To sustain a reasonable gain in output, this requires a spurt in productivity. Such gains do occur early in upturns and especially when manufacturing headquarters staff is being reduced even as production is rising, as at this time. Therefore, the projections certainly are possible, but our confidence in them is diminishing as these anomalies persist.

Also anomalous is the shrinkage implied in the labor force as employment rises. Either household employment will increase more than currently projected, or unemployment will be higher than currently indicated. Data revisions next month may unravel some of these anomalies. Certainly, the decline in jobs in other services is suspect and may be revised away. Retail employment actually rose while other employment weaknesses were minor except in government and construction.

PERSONAL INCOME AND OUTLAYS-Wage earnings were not quite as strong as implied by the June employment condition, but they were robust in the June report. This offset further declines in farm income and property income, but personal income definitely slower relative to wage earnings. In July, wage earnings should fall sharply, but not as sharply as implied by the employment condition. This will lead to a decline in personal income and a sharp drop in savings even with little change in outlays.

Hot weather will continue to create unusual utility demands in the service component. Some slowing in service expenditures is likely in August if weather patterns become more normal. Clearly, the surge in consumer durable purchases is over. Auto sales again are struggling following a spring bounce. Furniture and hardware purchases peaked in May and fell sharply in June. Little growth from June levels is anticipated until the fall. The early purchases of summer fashions in May caused a sag in June sales of nondurable goods. While no further sag is likely, lower gasoline prices should continue to restrain nondurable sales into the fall. Therefore, retail sales are expected to grow slower than even slowing inflation during the summer before rebounding in the fall. The gains in service activity will permit further expansions in consumer spending, but the gains will fall far short of the 3.6% surge during the spring.

CONSTRUCTION-One of the more disappointing aspects of this recovery is the absence of construction support. Housing sales rose a strong 7.5% in June, but all the gains were in previously weak northeast and western markets. Thus, the improvement may not persist. Furthermore, even with current sales, inventories remain near 7 months for new single family homes. No construction surge is likely with that overhang. Moreover, the growth of permits has been deceiving. Although permits seem to signal a healthy expansion ahead, most of the permit gains have been for multi-family activity. However, financing restraints continue to prevent those permits from being utilized. Single family permits are hardly growing in recent months, suggesting that some slowing soon will develop there. Apartment construction did rebound in June, but from the lowest recorded level of apartment activity. Stronger housing activity is needed to offset other construction expenditures, which are continuing to sag.

Residential construction certainly has turned and will be a significant positive contributor to economic activity during the summer quarter. However, total construction after inflation still remains weak. Budgetary constraints are preventing any meaningful advance in public construction. The gains in June were concentrated in miscellaneous projects rather than in sewage, highways, hospitals and schools. The only growth sector is in penitentiaries. Although public construction should grow more than last year, the gains will be spotty.

Conditions for nonresidential construction are far worse. No turn has been made. Activity continues to fall sharply for hotels, industrial, commercial and retail activity. Financing, excess capacity and the uncertainties generated by the large holdings of property by the RTC are combining to prevent any meaningful slowing in the nonresidential slump. Even if activity stabilizes in the summer, the quarterly decline will be the largest in this downturn. Thus, the stability projected later in the year is not assured. While housing is playing its traditional role of leading the economy out of recession, none of the other construction sectors is following at this time, and the leader appears to be tiring.

BUSINESS ACTIVITY-The shrinking backlog of durable goods orders is the most worrisome component of the business sector. Although aircraft accounts for most of the weakness, and their reduced orders will not impact activity for another two to three years, nondefense capital goods orders other the transportation has been trailing shipments by more than a billion dollars in recent months. Because shipments and employment remain strong, we have concluded that inquiries must be strong. Some anecdotal evidence also supports that assumption. Therefore, some improvement in orders is anticipated in the next few quarters. Certainly the fall introduction of new computers will cause orders growth in that sector. Despite all these conditions, the $3.5 billion shrinkage in backlog last month cannot be overlooked. At a minimum, the spring growth in shipments cannot be sustained until those orders improve.

Fortunately, the end to inventory liquidations should continue to sustain some growth in manufacturing activity for the next few months. In manufacturing, inventories are falling for finished goods and raw materials but are growing for goods in process. This suggests that further gains in shipments are likely in the next few months. Also, declines in finished goods inventories in manufacturing and retail inventories during May (the last month available) suggests that some unintended inventory liquidation has occurred. This need to rebuild inventories will sustain activity through the summer and into the fall. After that, improving employment and earnings will be needed to further sustain the gains.

Because of the reduced liquidations of inventories, which enters positively into economic activity, industrial production has been reasonably robust. Perhaps this Federal Reserve statistic is preventing the Federal Reserve from determining the degree of jeopardy faced by the current economic expansion. Offsetting the weakening consumer sector will by strengthening industrial activity through the summer and into the fall.

PRICES-Heavy inventory liquidations are preventing the normal price slashing that occurs at the end of recessions. Even so, prices of industrial materials and consumer services are declining or growing more slowly. Indeed, service inflation has slowed by nearly a percentage point and should sustain that reduced activity for the next year. The weakness in prices of nondurables was largely related to falling petroleum prices early this year, which is no longer a factor. Even so, consumer inflation should be a percentage point less in the next twelve months than it was during the past twelve. Commodity prices as reflected by the PPI for finished goods and the industrial commodities prices are continuing to fall. Some firming is expected late this year, but not much.

Because of continuing moderation of prices other than from petroleum, the **GNP deflator** should grow about a half point more slowly during the next four quarters than in the past four quarters. The only troublesome sign of inflation is in construction, and that was created by reduced supplies out west following a ruling of the spotted owl habitat. That spurt in construction prices will not be sustained.

MISCELLANEOUS-Despite five consecutive gains in the **leading indicators**, that measure has not yet regained new high ground. With declines in the real money stock, workweek, and sensitive prices already apparent along with a further reduction in backlog and some weakness in consumer confidence, that five month string could be broken in July. However, rising stock prices, a possible rebound in orders, further delivery delays, possible further improvement in initial claims could offset the weakness. Indeed, whether the indicators rise or fall in July may depend upon building permits and the strength of an anticipated orders rebound. Even so, a relapse has not occurred following five consecutive months of indicator gains. (Is there always a first time?)

While inventories have been liquidating, our trade balances have continued to improve. Last month, however, the unusually low level of oil imports was reversed. Further increases in oil prices assure further gains there for the June statistics. Exports are growing slowly as the world economy falls and as the dollar surged. Now that most pledges for the Persian Gulf war have been paid, the dollar shortage no longer is evident. Therefore, the dollar should fall, and could fall harder than currently projected. Eventually, this will further improve our trade balances if the world does not slip into recession.

Because prices have been falling for petroleum products and other industrial material prices, inventory values have been falling. Also, depreciation adjustments were appropriate during the second quarter following several quarters when they understated economic replacement costs. As a result, taxable corporate income fell, lowering tax liabilities, while adjusted corporate income rose. The result has been surprisingly strong gains in adjusted profits despite economic weakness. Further cost cutting insures further profits gains, although inventory values should begin rising.

In order to grow 2.5% for the summer, the economy will need to experience several months of sharp gains. An inventory rebound could create these gains, but the July employment report is not encouraging. Therefore, downward adjustments in GNP estimates are likely. Even if the modest summer and fall gains materialize, low savings rates should mean that the recovery will remain anemic well into 1992, when renewed export activity may re-invigorate the economy.

FINANCIAL MARKETS

Rising long-term interest rates during the second quarter are difficult to explain. Perhaps short-term rates fell more than could be justified by prevailing economic conditions. (Investors perceive that growth at such interest rates will generate inflationary fears leading to rising long-term rates.) In any event, the yield curve has been historically steep.

The government sector did increase its borrowings modestly as the flow of pledge money slowed. However, many state and local governments began to reduce their large deficits through tax increases and expenditures reductions. Government borrowings probably intensified slightly, adding to interest rate pressures during the spring and will intensify further in the summer as pledge monies slow to a trickle. Government borrowings should begin to ease in the fall, however, where the quarterly funding may fall below the record $38 billion during the summer. Further moderation in government borrowing pressure is expected early next year as well.

Corporate borrowings remained subdued as inventory liquidations remained intensive. Cash flow improved as profits fell less than tax liabilities and depreciation equaled replacement costs after falling below such costs in the winter. On the spending side, capital appropriations increased slightly, but the net effect of the corporate sector was to reduce borrowings in the spring. During the summer increased cash flow should offset reduced inventory liquidations leading to little change in corporate borrowing needs. By the fall, if the economy does not relapse, corporate borrowings should begin growing faster than cash flow, leading to some borrowing pressures there.

The household sector also was strapped for funds as housing investment increased modestly while savings declined. Further reductions in household savings are developing in the summer. Some improvement is almost certain in the fall and early next year, however. These savings gains should more than offset any increased housing investment, leading to additional net contributions from the household sector.

International flows were favorable to the U.S. in the spring as the dollar improved in value, equity values also were improving in the United States, and prospects for strengthening activity ahead were substantial. The dollar shortage is over; the recovery is in jeopardy, and short-term interest rates are continuing to fall. This should reverse the capital flows into the U.S. during the fall and winter. More neutral conditions probably prevail for the summer.

When all the forces are combined, interest rates probably should have fallen during the spring, when foreign flows and corporate reduced borrowing more than offset reduced household supplies of funds and the increased needs of government. In the summer, further corporate reduced borrowings and near stability in the household sector should offset a shift in foreign sentiment and additional government borrowing. By the fall, government will reduce its borrowing even as corporations will be increasing theirs. The household sector should be improving but foreign flows should be deteriorating. This means six months of relatively trendless interest rates, although declining rates are more likely in the summer. Rates then could begin rising early next year if the recovery remains in force.

Currently, further moderation in Federal Reserve targets are expected, leading to modest further reductions in short term interest rates. Long-term investors also should be encouraged by little inflationary fear and an unusually steep yield curve. Thus, all rates should fall during the next few months. Whether rates fall further early in 1992 depends upon the strength of the recovery. If the recovery fades, as our **PROJECTIONS** suggest, then further modest declines in rates are likely. Any sustained increases in rates are not likely until the latter half of 1992, if then.

In the past twelve months, **M2** growth has been comparable to growth in nominal GNP. During the next twelve months, we are projecting that current interest rate targets and sluggish activity will not permit a substantial increase in **M2** growth. However, more substantial gains in nominal GNP are projected. More likely, the Federal Reserve will lower interest rate targets more aggressively, allowing a faster surge in the monetary base and further expansion of **M2**. However, in the latest month, most monetary aggregates have actually declined.

EQUITY MARKETS-The quality of profits have improved even as their level has deteriorated. As a result, any recovery will lead to a substantial surge in profits, especially for commodity producing industries. Thus, cyclical stocks are due for substantial gains in value if only the recovery was assured. Such a recovery is not assured, however, and investors have again moved toward defensive positions of consumer staples and drugs. Our formulas suggest that stock prices are not overvalued and that new highs are likely in August. However, gains from current levels of 388 on Standard and Poor's and 3035 on the Dow will be modest. The market probably will remain in its 2900-3050 channel until after the November refunding. A break to higher territory then is expected, although the increases will be between 5% and 10%.

Liquidation of equity positions is not recommended, but substantial additions also are not encouraged. Some movement from the recessionary values to more cyclical issues should be sought. If the dollar falls in value, as expected, some of the multi-nationals may do well. Once new products are introduced this fall, the technology issues once again are expected to rebound.

We favor equity positions at this time, but should expect only a 10% rate of return over the next six to nine months. Moreover, the sluggish stock market performance that developed in March is expected to continue until after the November government quarterly refunding. In addition, the uncertainty of recovery has increased. This means that our estimates are less reliable than under normal conditions and should be adjusted downward by prudent investors.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
January 1991	109418		121.3		116922		6.1	10.18	
February	109160	-2.4	121.5	-5.4	116918	-2.4	6.4	10.20	2.5
March	108902		120.9		116754		6.8	10.24	
April	108736		120.0		117398		6.6	10.28	
May	108887	-1.2	121.2	-0.4	116591	0.3	6.9	10.32	4.7
June	108866		122.1		116884		7.0	10.37	
July	108815		120.4		116712		6.8	10.36	
August	108883 *	0.2	121.0 *	-0.8	116743 *	-0.7	6.9 *	10.40 *	3.0
September	108967		121.2		116821		6.9	10.44	
October	109021		121.4		116897		6.9	10.47	
November	109063	0.7	121.5	2.1	116936	0.7	7.0	10.50	3.9
December	109127		121.6		117023		7.0	10.53	
January 1992	109191		121.8		117106		7.0	10.57	
February	109224	0.5	122.0	1.4	117189	0.6	6.9	10.60	3.9
March	109229		122.0		117055		7.1	10.63	
April	109316		122.2		117128		7.1	10.67	
May	109391	0.7	122.3	1.3	117226	0.3	7.0	10.70	4.0
June	109472		122.5		117284		7.0	10.74	
Chng Jun(92)/Jun(91)		0.6		0.3		0.3	0.3 #		3.6
Chng Jun(91)/Jun(90)		-1.4		-1.8		-1.1	0.7 #		3.5

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	4.724		2.741		191.3		4.009		3.818	
February	4.733	1.6	2.742	0.3	169.8	-7.8	4.019	1.7	3.850	2.1
March	4.750		2.746		145.1		4.036		3.890	
April	4.755		2.750		165.3		4.037		3.872	
May	4.780	3.7	2.767	4.2	143.4	-36.4	4.060	3.7	3.916	5.8
June	4.803		2.798		143.4		4.078		3.935	
July	4.799 *		2.782 *		133.6 *		4.071 *		3.938 *	
August	4.825	3.6	2.797	3.8	142.6	-29.3	4.094	3.2	3.951	4.7
September	4.841		2.813		138.5		4.106		3.968	
October	4.866		2.828		139.3		4.128		3.988	
November	4.889	5.7	2.840	6.2	139.4	2.7	4.147	5.6	4.007	5.7
December	4.912		2.852		138.6		4.166		4.027	
January 1992	4.940		2.869		143.7		4.192		4.048	
February	4.965	6.2	2.884	6.0	148.4	18.5	4.215	6.4	4.066	6.0
March	4.984		2.893		143.4		4.229		4.086	
April	5.010		2.910		149.6		4.252		4.102	
May	5.032	5.9	2.922	6.0	147.4	13.7	4.270	5.8	4.122	5.6
June	5.061		2.940		152.6		4.295		4.142	
Chng Jun(92)/Jun(91)		5.4		5.1		6.4		5.3		5.3
Chng Jun(91)/Jun(90)		3.5		3.1		-21.0		3.4		4.6

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.
# is the percentage change in the labor force

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	3707.8		440.3		1205.8		2061.7		2643.1	
February	3739.9	1.9	453.5	-12.3	1215.3	-1.2	2071.2	6.9	2660.1	-1.5
March	3780.7		472.2		1217.0		2091.5		2688.0	
April	3762.8		450.0		1212.3		2100.5		2669.2	
May	3807.4	6.1	463.9	6.2	1222.5	1.8	2120.9	8.7	2690.6	3.6
June	3825.8		472.6		1219.1		2134.1		2701.8	
July	3828.7		464.7		1219.7		2144.3		2696.5	
August	3842.4 *	4.8	466.7 *	3.8	1223.2 *	1.7	2152.5 *	6.8	2700.5 *	2.0
September	3858.9		468.2		1226.6		2164.2		2704.9	
October	3879.2		473.5		1229.8		2175.9		2711.9	
November	3897.9	5.8	474.9	8.1	1235.0	3.8	2188.0	6.5	2718.2	2.7
December	3917.9		478.7		1239.1		2200.1		2726.3	
January 1992	3938.4		481.9		1243.4		2213.2		2733.5	
February	3956.7	6.2	484.5	7.5	1247.0	4.2	2225.3	7.0	2739.5	3.1
March	3976.4		486.6		1251.9		2237.9		2745.7	
April	3992.5		488.3		1253.9		2250.3		2748.2	
May	4012.3	5.7	491.4	5.9	1258.8	3.7	2262.1	6.8	2754.9	2.2
June	4031.9		494.0		1263.4		2274.5		2760.2	
Chng Jun(92)/Jun(91)		5.4		4.5		3.6		6.6		2.2
Chng Jun(91)/Jun(90)		4.7		-1.9		2.6		7.6		0.3

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	147.81		21.71		7.6		96.91		29.19	
February	151.10	-1.7	22.48	1.1	8.3	-30.1	97.86	-1.1	30.76	-5.9
March	151.47		22.58		8.7		97.74		31.15	
April	150.97		22.64		7.9		97.48		30.85	
May	152.19	4.2	22.90	8.2	8.4	11.9	98.29	1.8	31.00	9.5
June	151.92		22.56		9.0		98.03		31.33	
July	151.68 *		22.57 *		8.8 *		98.08 *		31.03 *	
August	152.19	1.3	22.55	-2.2	9.0	29.7	98.36	1.7	31.28	2.3
September	152.63		22.61		9.2		98.63		31.39	
October	153.50		22.64		8.9		98.89		31.97	
November	154.08	5.3	22.76	2.3	8.9	-1.5	99.31	3.8	32.01	12.4
December	154.85		22.72		9.1		99.64		32.49	
January 1992	155.56		22.85		9.2		99.98		32.73	
February	156.15	5.4	22.93	4.8	9.3	14.1	100.27	4.2	32.95	9.4
March	156.79		23.14		9.3		100.67		32.98	
April	157.15		23.11		9.4		100.83		33.21	
May	157.90	4.4	23.22	4.2	9.5	8.9	101.22	3.7	33.46	7.0
June	158.57		23.31		9.5		101.59		33.67	
Chng Jun(92)/Jun(91)		4.4		3.3		5.6		3.6		7.5
Chng Jun(91)/Jun(90)		1.1		-1.1		-8.2		2.1		-0.5

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CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	0.847		0.648		0.199		0.802	
February	0.992	-41.0	0.788	-27.3	0.204	-70.1	0.876	-17.3
March	0.907		0.742		0.165		0.892	
April	0.977		0.801		0.176		0.913	
May	0.989	43.6	0.836	75.0	0.153	-39.5	0.966	57.9
June	1.040		0.868		0.172		1.002	
July	1.055 *		0.875 *		0.180 *		0.976 *	
August	1.067	27.9	0.881	23.7	0.186	50.6	0.985	11.1
September	1.075		0.886		0.189		0.997	
October	1.054		0.859		0.195		0.976	
November	1.079	4.7	0.881	-0.8	0.198	33.9	1.004	5.1
December	1.101		0.897		0.204		1.015	
January 1992	1.112		0.903		0.209		1.027	
February	1.133	19.5	0.916	16.6	0.217	32.9	1.043	17.5
March	1.136		0.921		0.215		1.048	
April	1.148		0.920		0.228		1.062	
May	1.160	10.7	0.925	5.1	0.235	37.4	1.069	12.1
June	1.160		0.929		0.231		1.077	
Chng Jun(92)/Jun(91)		11.5		7.0		34.3		7.5
Chng Jun(91)/Jun(90)		-12.4		-2.5		-42.1		-10.8

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	142.1		102.6		161.8		406.5		366.5	
February	144.9	-7.5	109.6	-15.8	155.6	-26.8	410.1	-17.9	369.3	-17.3
March	140.9		108.6		152.4		401.9		362.0	
April	146.8		107.9		151.3		406.0		364.2	
May	135.9	-11.0	108.3	5.5	155.2	-3.8	399.4	-4.0	357.5	-6.6
June	132.9		109.0		158.8		400.7		357.5	
July	131.6 *		108.1 *		161.4 *		401.1 *		357.2 *	
August	131.3	-18.9	108.2	0.6	163.6	23.0	403.1	1.3	358.3	-1.4
September	131.5		109.3		165.0		405.8		360.1	
October	131.8		109.8		164.7		406.3		359.5	
November	132.2	2.1	109.5	5.0	164.9	4.6	406.6	3.9	359.2	1.5
December	132.5		110.3		166.0		408.8		360.8	
January 1992	132.1		110.8		168.7		411.6		362.3	
February	132.6	1.1	110.4	3.4	171.3	15.1	414.3	7.3	364.1	4.8
March	132.9		111.2		173.2		417.3		365.7	
April	133.4		111.6		175.1		420.1		367.2	
May	133.9	4.3	112.4	5.5	176.6	13.0	422.9	8.2	368.7	4.9
June	134.5		112.9		177.5		424.9		369.5	
Chng Jun(92)/Jun(91)		1.2		3.6		11.7		6.0		3.3
Chng Jun(91)/Jun(90)		-15.2		0.6		-14.4		-11.1		-12.0

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	388.4		117.79		33.96		31.72	
February	388.5	-3.2	117.55	-18.8	33.76	-32.2	32.21	-18.1
March	386.0		112.12		31.94		31.41	
April	385.1		116.14		28.75		31.73	
May	381.9	-5.3	118.43	4.6	28.04	-44.2	32.13	5.8
June	380.3		116.82		29.35		32.83	
July	379.8 *		117.91 *		29.62 *		32.55 *	
August	379.8	-2.6	118.46	6.2	29.93	17.5	32.37	3.2
September	380.2		120.31		30.14		32.54	
October	380.9		119.48		30.56		32.39	
November	382.1	2.3	120.67	5.0	30.79	12.6	32.51	-0.0
December	383.4		120.93		31.04		32.56	
January 1992	384.3		120.55		31.09		32.58	
February	385.5	3.6	121.48	3.3	31.36	8.0	32.61	1.7
March	386.9		121.96		31.73		32.69	
April	387.8		122.37		32.09		32.76	
May	389.1	3.7	122.60	4.6	32.14	11.0	32.73	1.9
June	390.3		123.15		32.43		32.85	
Chng Jun(92)/Jun(91)		2.6		5.1		10.5		0.1
Chng Jun(91)/Jun(90)		-1.1		-8.1		-9.7		1.4

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	831.4		8.20		106.6		80.0	
February	828.2	0.4	8.57	-18.9	105.7	-9.6	79.1	-11.8
March	819.6		8.57		105.0		78.4	
April	820.2		8.86		105.5		78.6	
May	813.4	-5.5	8.41	8.5	106.2	1.6	79.0	-1.0
June	810.7 *		8.59		106.9		79.3	
July	810.5		8.55 *		107.3 *		79.4 *	
August	811.6	-1.3	8.53	0.0	107.7	5.5	79.6	2.9
September	814.3		8.78		107.9		79.6	
October	816.5		8.61		108.3		79.7	
November	819.4	3.5	8.58	-1.2	108.6	3.5	79.7	0.8
December	821.7		8.59		108.8		79.7	
January 1992	823.9		8.55		109.1		79.7	
February	826.2	3.6	8.64	0.2	109.0	2.0	79.5	-0.8
March	829.4		8.60		109.2		79.4	
April	832.5		8.63		109.4		79.4	
May	835.1	4.4	8.67	2.5	109.5	1.5	79.3	-1.0
June	838.9		8.65		109.6		79.3	
Chng Jun(92)/Jun(91)		3.5		0.7		2.5		0.0
Chng Jun(91)/Jun(90)		-0.2		-5.1		-2.9		-5.6

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	134.8		122.0		119.3		134.4	
February	135.1	3.5	121.1	-3.2	117.2	-8.6	134.8	5.2
March	135.0		120.5		115.1		135.2	
April	135.3		120.8		115.5		135.6	
May	135.7	2.0	121.5	-0.2	116.1	-4.5	136.2	3.9
June	136.0		121.1		116.0		136.5	
July	136.3 *		120.8 *		116.3 *		137.0	
August	136.6	3.0	120.9	-0.6	116.9	1.3	137.3	3.6
September	137.0		121.2		115.5		137.6	
October	137.4		121.4		117.1		138.2	
November	137.7	3.0	121.6	2.2	117.4	4.0	138.5	3.6
December	138.0		121.8		117.6		138.8	
January 1992	138.4		121.9		118.0		139.2	
February	138.7	3.0	122.1	1.8	118.1	2.6	139.7	3.3
March	139.1		122.4		118.3		140.1	
April	139.5		122.7		118.6		140.5	
May	139.9	3.4	123.0	2.7	118.8	2.3	141.0	3.9
June	140.3		123.2		119.0		141.5	
Chng Jun(92)/Jun(91)		3.2		1.8		2.6		3.6
Chng Jun(91)/Jun(90)		4.6		3.0		2.5		4.2

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	140.3		112.4		135.4		151.5		110.9	
February	140.6	3.5	113.1	0.8	135.3	0.8	152.2	4.7	111.0	0.1
March	140.7		113.4		134.9		152.7		111.0	
April	141.0		112.9		135.1		152.9		111.5	
May	141.5	2.4	113.4	1.0	135.5	0.6	153.7	3.6	111.7	2.8
June	141.6		113.4		135.6		153.9		112.0	
July	142.0 *		113.6 *		135.6 *		154.5 *		112.3 *	
August	142.3	2.7	113.8	1.8	135.8	1.3	154.9	3.8	112.5	2.7
September	142.7		113.9		136.1		155.4		112.7	
October	143.0		114.2		136.4		155.9		113.0	
November	143.4	3.0	114.4	2.1	136.6	2.4	156.4	3.8	113.2	2.4
December	143.7		114.5		136.9		156.8		113.3	
January 1992	144.1		114.6		137.1		157.4		113.6	
February	144.4	3.0	114.8	1.5	137.3	2.1	157.9	4.0	113.8	2.4
March	144.8		115.0		137.6		158.4		114.1	
April	145.3		115.1		138.0		159.0		114.4	
May	145.6	3.4	115.3	1.8	138.4	3.0	159.4	4.0	114.7	3.1
June	146.1		115.5		138.7		160.0		115.0	
Chng Jun(92)/Jun(91)		3.2		1.9		2.3		4.0		2.6
Chng Jun(91)/Jun(90)		4.4		1.3		4.3		4.7		1.0

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	134.8		122.0		119.3		134.4	
February	135.1	3.5	121.1	-3.2	117.2	-8.6	134.8	5.2
March	135.0		120.5		115.1		135.2	
April	135.3		120.8		115.5		135.6	
May	135.7	2.0	121.5	-0.2	116.1	-4.5	136.2	3.9
June	136.0		121.1		116.0		136.5	
July	136.3 *		120.8 *		116.3 *		137.0	
August	136.6	3.0	120.9	-0.6	116.9	1.3	137.3	3.6
September	137.0		121.2		115.5		137.6	
October	137.4		121.4		117.1		138.2	
November	137.7	3.0	121.6	2.2	117.4	4.0	138.5	3.6
December	138.0		121.8		117.6		138.8	
January 1992	138.4		121.9		118.0		139.2	
February	138.7	3.0	122.1	1.8	118.1	2.6	139.7	3.3
March	139.1		122.4		118.3		140.1	
April	139.5		122.7		118.6		140.5	
May	139.9	3.4	123.0	2.7	118.8	2.3	141.0	3.9
June	140.3		123.2		119.0		141.5	
Chng Jun(92)/Jun(91)		3.2		1.8		2.6		3.6
Chng Jun(91)/Jun(90)		4.6		3.0		2.5		4.2

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	140.3		112.4		135.4		151.5		110.9	
February	140.6	3.5	113.1	0.8	135.3	0.8	152.2	4.7	111.0	0.1
March	140.7		113.4		134.9		152.7		111.0	
April	141.0		112.9		135.1		152.9		111.5	
May	141.5	2.4	113.4	1.0	135.5	0.6	153.7	3.6	111.7	2.8
June	141.6		113.4		135.6		153.9		112.0	
July	142.0 *		113.6 *		135.6 *		154.5 *		112.3 *	
August	142.3	2.7	113.8	1.8	135.8	1.3	154.9	3.8	112.5	2.7
September	142.7		113.9		136.1		155.4		112.7	
October	143.0		114.2		136.4		155.9		113.0	
November	143.4	3.0	114.4	2.1	136.6	2.4	156.4	3.8	113.2	2.4
December	143.7		114.5		136.9		156.8		113.3	
January 1992	144.1		114.6		137.1		157.4		113.6	
February	144.4	3.0	114.8	1.5	137.3	2.1	157.9	4.0	113.8	2.4
March	144.8		115.0		137.6		158.4		114.1	
April	145.3		115.1		138.0		159.0		114.4	
May	145.6	3.4	115.3	1.8	138.4	3.0	159.4	4.0	114.7	3.1
June	146.1		115.5		138.7		160.0		115.0	
Chng Jun(92)/Jun(91)		3.2		1.9		2.3		4.0		2.6
Chng Jun(91)/Jun(90)		4.4		1.3		4.3		4.7		1.0

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	326.8		826.7		3331.0		6.91		6.28	
February	332.8	15.3	836.4	6.0	3354.3	3.6	6.25	-52.7	6.20	-40.0
March	335.2		843.0		3374.9		6.12		5.92	
April	333.5		842.2		3382.8		5.91		5.71	
May	335.4	4.2	851.7	7.6	3394.9	4.7	5.78	-30.7	5.61	-25.9
June	336.2		858.5		3398.6		5.90		5.75	
July	337.7 *		860.5 *		3391.7 *		5.92 *		5.71 *	
August	339.0	4.8	866.1	7.5	3402.5	1.4	5.61	-12.6	5.47	-10.4
September	340.3		872.5		3417.3		5.48		5.43	
October	341.6		877.6		3428.6		5.53		5.45	
November	342.5	4.2	881.9	7.2	3438.4	4.3	5.57	-8.2	5.48	-6.3
December	343.3		885.4		3452.2		5.55		5.41	
January 1992	343.9		887.6		3464.7		5.46		5.32	
February	344.5	2.3	891.6	4.4	3478.1	4.5	5.41	-7.7	5.27	-11.0
March	344.9		894.3		3491.6		5.45		5.28	
April	346.0		896.8		3505.4		5.27		5.22	
May	347.3	3.3	899.5	4.0	3517.6	4.6	5.29	-10.1	5.25	-2.7
June	348.5		903.3		3530.4		5.33		5.29	
Chng Jun(92)/Jun(91)		3.7		5.2		3.9		-9.7		-8.0
Chng Jun(91)/Jun(90)		9.2		5.8		3.3		-30.3		-24.8

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	9.04		7.08		7.10		7.17		9.52	
February	8.83	-14.7	6.91	-11.4	6.49	-48.7	6.60	-48.4	9.05	-28.7
March	8.93		7.10		6.41		6.45		9.00	
April	8.86		7.02		6.07		6.06		9.00	
May	8.86	-1.0	6.95	0.2	5.92	-32.9	5.91	-36.6	8.50	-20.9
June	9.01		7.13		6.11		6.07		8.50	
July	8.93 *		7.04 *		6.02 *		5.98 *		8.50 *	
August	8.74	-4.8	6.84	-7.5	5.68	-17.1	5.73	-14.4	8.50	-7.5
September	8.73		6.81		5.57		5.64		8.50	
October	8.82		6.85		5.64		5.71		8.50	
November	8.76	-1.7	6.76	-7.0	5.71	-5.0	5.84	0.0	8.50	0.0
December	8.71		6.71		5.70		5.80		8.50	
January 1992	8.79		6.78		5.63		5.73		8.50	
February	8.72	0.3	6.74	0.0	5.56	-6.6	5.61	-8.3	8.50	0.0
March	8.80		6.80		5.57		5.64		8.50	
April	8.88		6.85		5.42		5.56		8.27	
May	8.91	6.7	6.93	8.7	5.44	-9.7	5.60	-4.4	8.25	-11.0
June	8.95		6.97		5.48		5.63		8.25	
Chng Jun(92)/Jun(91)		-0.7		-2.2		-10.3		-7.2		-2.9
Chng Jun(91)/Jun(90)		-2.5		-1.5		-25.3		-26.5		-15.0

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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
August 1991

Dr. Donald Ratajczak, Director
For Release: Wednesday, September 4, 1991

SO FAR, ONLY AN INVENTORY REBOUND IS APPARENT

Durable goods orders surged and the national association of purchasing managers show strong gains in August. The leading indicators were up strongly and inventory delays lengthened for the fifth consecutive month. Even with lower interest rates, falling prices of sensitive commodities means that the cost of holding inventories remains unprofitable. When the second quarter GNP was revised downward, higher inventory liquidations accounted for most of the change. In other words, inventory adjustments have been a major factor in economic activity in the past several months, and an inventory rebound is developing for the next several months.

Unfortunately, no other strength is apparent. Housing is improving but not surging. Indeed, single family sales in July fell sharply (although distortions in the Midwest may have added to that weakness). Apartment lending remains moribund. The second quarter gains in producers' durables came from purchases of auto fleets (whose purchases were included in consumer spending in the advance GNP report, leading many to believe the consumer was spending more than actually occurred). Net exports deteriorated, while the gains in government spending reflected increased purchases by the commodity credit corporation to manage grain prices. Spending by state and local governments actually contracted.

In the short-run, the chaos in the Soviet Union will have only minor impact upon the United States. Clearly, Soviet oil production matters, but little evidence of any more rapid deterioration in their production has surfaced. The volume of trade between the United States and the Soviet Union is less than the change in trade this year between the U.S. and Taiwan. However, grain markets will be impacted.

Assuming the democracy trend continues, the United States will supply credits and provide grants to purchase our grain. An additional $2 billion of grain may go to the Soviets, with nearly a fourfold impact on farm incomes because of the higher grain prices that might develop. However, consumers will not see any impact from the higher grain prices until next spring, when reduced animal herds will begin pressing meat prices upward.

The other major impact is in our defense needs. A less unified Soviet Union probably reduces their threats of international adventurism. Therefore, our strategic defense requirements may ease. Also, fewer world client states will mean reduced risk of even Iraq type activities if the Soviets shape their swords into plowshares. Ultimately, our own weapons sales could diminish. Thus, the defense budget will continue to erode, but more than 3 percent a year after inflation for the next five years. The need to purchase less defense insurance certainly aids economic welfare, but it will reduce economic activity in the next few years.

To bring inventories up to sales levels will require a $35 billion swing in inflation adjusted GNP. Thus, economic activity will appear to be growing very vigorously during the next few months. However, the absence of further strength raises questions about the follow-through. Normally, an inventory swing increases payrolls, raising consumption even as construction rebounds. After a lag, investment also responds and the economy advances vigorously for 12-18 months. However, the government sector will be even more restrained than normal while little evidence of producers' expenditures is apparent.

Corporate profits were surprisingly low in the second quarter. Despite further declines in inventory profits, which normally reduces tax liabilities, operating profits less tax liabilities actually fell at 6.7% annualized rate following a 23% surge in the first quarter. As a result, the 54% annualized gain in equity values during the winter followed by a 33% annualized gain in the spring no longer has fundamental support. Therefore, moderate declines in equity values are likely this fall despite further projected declines in long-term interest rates. For the next year, equity values are projected to rise a relatively modest 6.8%. Even with dividend yields, total returns should be less than 11%. Even so, this will be a better rate of return than less than 8 percent for bonds (after a modest decline in price is included for the next twelve months), and only 5% for cash and cash equivalents.

A projected decline in the dollar's value probably will provide stronger returns abroad, with the most interesting opportunities occurring in Mexico, Canada (whose recession ended with a 4.9% gain in second quarter GNP) and Europe. Even there, returns should be less than 15% which may only compensate for the continued uncertainty surrounding Europe as the Soviet Union struggles to rebuild an identity.

Monthly Statistical Highlights

	AUGUST 1991	SEPTEMBER 1991	OCTOBER 1991
Payroll Employment	41,000	65,000	84,000
Index of Hours Worked	0.5%	0.2%	0.2%
Household Employment	31,000	78,000	92,000
Civilian Unemployment Rate	6.9%	6.9%	6.9%
Personal Income	0.3%	0.5%	0.5%
Savings Rate	4.0%	4.0%	4.0%
Personal Consumption	0.0%	0.5%	0.5%
Retail Sales	-0.3%	0.5%	0.4%
Auto Sales	8.8*	9.1*	9.0*
Housing Starts	1.3%	1.4%	2.0%
Housing Permits	-1.7%	1.2%	-2.1%
Construction Expenditures	0.7%	1.1%	0.8%
Business Inventories	-0.1%	0.2%	0.2%
Orders for Durable Goods	-2.9%	-0.9%	0.6%
Orders - Nondefense Capital Goods	-8.9%	-3.3%	0.6%
Industrial Production	0.4%	0.4%	0.3%
CPI	0.4%	0.4%	0.3%
PPI	0.6%	0.6%	0.2%
Consumption Deflator	0.4%	0.4%	0.2%
Leading Indicators	0.0%	-0.2%	0.1%
Currency Index	-1.8%	-1.3%	-0.6%
Equity Index	3.6%	-0.6%	-0.1%
Real GNP (annual rate)	3.2%	3.2%	0.3%
M1 (annual rate)	8.8%	8.8%	5.7%
M2 (annual rate)	-0.4%	3.4%	3.3%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Although household estimates of employment rose modestly during the spring, payroll estimates continued to fall. Our **PROJECTIONS** show that pattern reversing during the summer quarter. Also surprising is a continued erosion of the workweek even as employment begins rebounding. More typically, hours would increase more rapidly than employment in the early phases of an expansion. The decline in the service sector, where hours are less flexible, may account for this difference.

Initial claims fell below 400,000 in July but should average above that level this month. Normally, the fall in claims would be associated with a substantial gain in payroll employment. However, so many long-term unemployed not finding work that the level of unemployed has sharply increased relative to the initial claims.

PERSONAL INCOME AND OUTLAYS-Wages fell sharply, as both distributive and service payrolls contracted. Further declines are unlikely in either sector during the next few months. However, the gains in government enterprise were surprising and may not be sustained. Interest income continues to fall, but at slower rates than in previous months. Farm income fell $4 billion to $43 billion last month. Further modest declines are likely in August before strengthening grain prices create gains in September. The summer slowing of personal income relative to wage earnings reflects weakness in farm income and transfer payments. Because a drop in farm income almost always leads to falling savings rates, declines during the summer are not surprising. Some improvement in savings should also be anticipated as farm incomes improve later this year.

The decline in effective taxes relative to income remains surprising. No tax initiative or change in property earnings suggests the weakness in tax collections. Of course, some of the discrepancy reflects the growth in non-taxable transfer payments relative to total income during the recession. Currently, we assume that the slower tax collections will not persist, especially as state and local governments are raising their tax rates.

Consumer spending was revised downward sharply in May to reflect much smaller purchases of autos by consumers than originally expected. This accounted for the substantial shift in GNP from consumption to producers' durables during the latest revision. However, those declines are not yet reflected in retail sales. Whether this portends a substantial downward revision in **retail sales** during the spring remains to be seen. The spurt in sales of nonauto durables during the spring appears to be related to special conditions that are not persisting into the summer. The modest gains in auto sales in comparison to unit sales reflects changes in fleet sales relative to consumer sales and the deep discounting that normally surfaces toward the end of model years. Most of the acceleration of nondurables purchases reflects rising gasoline prices, and should be temporary.

Aside from the durables, which show little relationship to retail durable sales at this time, the services sector also shows substantially slower gains in the summer than in the spring. This reflects higher utility bills because of an early summer that has shifted normal purchases from the summer to the spring. The underlying trend remains largely unaffected by this adjustment. Of course, a downward revision in durables would mean smaller gains in real consumption than currently projected. Already, the July peak in consumer spending is not expected to be exceeded until November. However, even more sluggish consumer spending is possible if these durable consumption revisions materialize.

CONSTRUCTION-Housing starts remained strong in July, but problems are on the horizon. **Housing permits** have stalled, with permits exceeding starts in apartments by more than 40,000. A decline in those permits is likely if economic conditions do not improve soon. Also, sales of single family homes fell 8.4% in July. Although the weakness in the Midwest suggests that some errors exist in the survey, such weakness still means little further gains in housing in the next few months. Of course, mortgage rates have fallen further, but the interest rate responsiveness of housing has declined while the real income component has become more substantial. Therefore, a rebound in the economy is becoming more important to housing while falling interest rates do not have the recharging ability in housing sales that once existed.

Residential construction is responding to stronger housing sales, but the remainder of construction is sluggish. Tight government budgets should prevent state and local governments from spending during the next twelve months. Although the latest Dodge contracts showed a gain, they remain sharply lower for the year. This means non-residential construction is bottoming out, but no rebound is likely this year. A spurt in the deflator still reflects higher materials costs because of environmental changes. However, the stronger gains in the construction deflator might lead to more inflation in the **GNP deflator** than currently estimated.

BUSINESS ACTIVITY-Inventory liquidations have not yet slowed. Manufacturing liquidations are as large during the summer as in the spring. Some gains in retail holdings will lead to smaller liquidations of business inventories, but no gains are likely until the fall. The liquidation of manufacturing inventories was widespread, with liquidations at all stages except for nondurables at the materials stage of processing. This suggests that liquidations still are desired and do not fully reflect surprises from higher than anticipated sales.

Most of the gains in durable goods orders were in transportation, but all sectors except lumber and wood products showed gains in July. More importantly, the backlog soared, following several months of significant declines. However, the non-transportation portion of non-defense capital goods still showed a decline in backlog, suggesting that further gains in orders will be needed before capital spending rebounds. Also, the orders surged while shipments merely drifted upward for all durable goods and actually fell for non-defense capital goods. Even with a rebound in shipments during August and September, capital goods shipments, and therefore, expenditures, will be lower during the summer than in the spring. Obviously, as the backlog increases, shipments also will intensify, but most gains are not likely until next year.

Also, orders usually sag after such a strong month. Many sales people take advantage of incentives following strong bookings, causing activity to grow slower than normal in subsequent periods.

The rebound in inventories is generating strong industrial activity than normally would be supporting the current level of economic activity. In fact, industrial activity may slow late this year even as GNP accelerates. **Capacity utilization** should increase significantly this summer, but the gains will not be enough to substantially intensify capital spending until next year. However, the inventory adjustment will be over by then. As a result, capital spending will remain sluggish through next year.

PRICES-Gasoline prices have begun to rise, but the earlier summer declines will prevent prices of nondurables from rising significantly. In the fourth quarter, oil product prices should remain stable as meat prices remain modest. Some problems with food prices are possible next year if grain prices rise sharply in response to Soviet needs, but substantial supplies of meat products exist at this time. Service prices should gradually intensify, but only after wages begin accelerating. This should only grudgingly develop. However, auto prices again are out of step with other prices. Substantial gains are now expected for consumer durable prices. Even so, inflation should remain subdued in the absence of any food price surprises.

The construction deflator may be stronger than currently projected, causing stronger increases in the GNP **deflator** than projected. However, composition changes should begin to moderate the deflator in the next few quarters. Certainly, the 3% gain in the fixed weighted deflator during the spring suggests that no surge in the deflator is likely in the absence of commodity inflation surges.

Although consumer prices are expected to continue growing more rapidly than the consumption deflator, the differences are not substantial. Some acceleration in producer prices is likely as oil prices stabilize and then drift upward, but no surge in inflationary pressures is in sight.

MISCELLANEOUS-The GNP revisions showed stronger inventory liquidations than previously. Also, some consumption of auto product was reclassified into producers' purchases. As a result, GNP fell marginally for the second quarter. Our estimates show the recession ended in April and a recovery began in May. Strong inventory gains should increase activity through the fall. After that, some rebound in trade and modest gains in capital spending, along with modest increases in consumption should preserve the expansion. However, any consumer restraint still could place the recovery in jeopardy once the inventory adjustment is completed early next year. Moreover, nominal GNP growth late this year may begin to exert upward pressures on interest rates if velocity does not easily expand to make up for the expenditures needs.

Rising material prices should generate a negative IVA after the spring, but the inventory price distortions should remain modest by historical standards. As a result, adjusted profits will not be substantially hampered by this price distortion. Stronger than normal profit gains are likely later this year. However, the dip in profitability occurred because the effective tax rate rose. The reason for this gain in taxes is not clear, although some state and local levies added to the pressures.

The trade balances probably have registered their best performances until next year. A strong dollar and a recession at home aided the improvement. Also, low oil prices helped. Oil prices are now up several dollars from the $16.09 per barrel that aided the June deficit. Also, a recovery will draw in more production from abroad. This erosion in trade balances, along with any further modest decline in short-term interest rates, should cause the dollar to ease from June highs. No serious collapse is expected in the dollar, but some weakness into the spring seems assured.

Strong orders led to surprising strength in the **leading indicators** in July. A new relationship has improved the interaction between the leading indicators and other data in the **PROJECTIONS.** According to these estimates, the indicators should show little further gain for the next few months. Some correction following the strength in orders should be expected. Also, the declining real money balances are continuing, while stock prices should stall in the next few months. Further gains are likely this fall, suggesting no double-dip. However, two months of declines may be in store before further gains occur in the indicators.

FINANCIAL MARKETS

Savings continued to fall through July in the household sector. At the same time, housing expenditures continued to rise. Therefore, the household sector's net contributions to credit markets continued to erode. No further erosion is likely during the summer and fall, but no significant gains in contributions from the household sector are likely either.

The government sector gained revenues from the corporate sector but lost them to the household sector according to the effective tax rates for personal and corporate income. Tax collections should not be as volatile later this year as the economy begins to recover. Defense spending should decline this fall and then gradually increase next year, but much of the defense savings will be offset by increased food credits for the Soviet Union. Therefore, federal deficits will remain near $300 billion. State and local deficits should fall by $40 billion, however, as budgets are slashed and taxes are raised there. As a result, total government borrowing should drift downward as the economy recovers.

Corporate inventory liquidations and capital spending restraints have dictated the flow of interest rates in the past few quarters. Those liquidations are continuing through the summer. However, capital spending should gradually improve in the fall and inventory investments should rise. Initially, corporate profits may be nearly sufficient to finance the increases. However, borrowing should rise early next year as inventory rebuilding and capital spending begin to outstrip profit gains. Thus, interest rate pressures should gradually intensify as the year develops.

International investors are still not sure whether they should stay with the dollar. If conditions abroad improve, however, some flight from the dollar as a safe haven could put downward pressures on the dollar, leading to more upward pressures in interest rates than currently projected.

During the first half of this year, corporate inventory liquidations and international capital flows more than offset the deterioration in household savings and a rise in government borrowing. Thus, interest rates fell. Corporations still are liquidating inventories while the household sector no longer is reducing credit market contributions. Governments are improving budgets but international capital is beginning to go home. This still allows some reduction in interest rates. Late this year, however, corporations will begin borrowing, international capital will stay away, households still will not increase savings, and government deficits will only drift downward. As a result, interest rates will drift upward next year.

Short-term rates will probably fall a little further, as the Federal Reserve becomes concerned with the strength of the recovery. But any further declines will be small. The yield curve might actually steepen with such action. Following that last gasp toward declining rates, pressures will swing upward. The yield curve will become flatter as short-term interest rates begin rising. Already, bank CD rates have fallen below commercial paper rates. One more decline in the federal funds rate should bring one more decline in the prime. Then rates will begin rising. No surge in rates is likely next year, but short-term and long-term rates both should be increasing early in the year. If the Federal Reserve moves quickly to stem any inflationary pressures early in the year, long-term rates could stabilize later. However, concern about tightening interest rates in an election year could lead to higher rates than currently projected.

EQUITY MARKETS-If profits rebound in the summer as projected, stock values are not excessive. On the other hand, they are fully valued at this time. Therefore, a substantial fall pause in the upward movement of equity values is likely. A Christmas rally may materialize, but fundamental conditions do not support substantial gains in equity values until the spring. If interest rates increase sharply at that time, little gain in stock market values is likely until the latter part of the year.

Cyclical companies probably are fully valued at this time. Many multi-national corporations should not perform well until the dollar has six months of declining values. They will rebound early next year, but not before. Most transportation issues also are fully valued. The financial sector should be split, with interest sensitive issues, such as utilities, having one last gasp before falling to mediocrity. However, banks and brokerage firms should continue to perform well into next year.

Technology stocks must await the expansion of capital shipments early next year. Gains are likely, but another six month wait may be needed first. The medical and pharmaceutical companies remain strong. Consumer based companies, such as food, beverage, and retailing may be underperformers. Industrial materials also may underperform, at least until later in 1992. Some farm implements, textiles, and oil servicing companies may do well, however, as the Soviet economy is retooled with western technology.

Caution is advised at this time, but no serious overvaluation of equities is seen. Therefore, no serious correction is expected. Even so, a fall-off in values is expected before further gains in equity values appear. The stock market may already have reached its highs for this year.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
January 1991	109418		121.3		116922		6.1	10.18	
February	109160	-2.4	121.5	-5.4	116918	-2.4	6.4	10.20	2.5
March	108902		120.9		116754		6.8	10.24	
April	108736		120.0		117398		6.6	10.28	
May	108887	-1.2	121.2	-0.4	116591	0.3	6.9	10.32	4.7
June	108866		122.1		116884		7.0	10.37	
July	108815		120.4		116712		6.8	10.36	
August	108856 *	0.1	121.0 *	-0.8	116743 *	-0.7	6.9 *	10.40 *	3.0
September	108921		121.2		116821		6.9	10.44	
October	109005		121.4		116913		6.9	10.47	
November	109093	0.9	121.5	2.1	116994	0.8	7.0	10.50	3.9
December	109202		121.6		117094		7.0	10.53	
January 1992	109313		121.8		117261		7.0	10.57	
February	109406	1.2	122.0	1.4	117298	1.1	6.9	10.60	3.9
March	109532		122.0		117384		7.1	10.63	
April	109612		122.2		117467		7.1	10.67	
May	109684	1.0	122.3	1.3	117543	0.9	7.0	10.70	4.0
June	109773		122.5		117685		7.0	10.74	
Chng Jun(92)/Jun(91)		0.8		0.3		0.7	0.7 #		3.6
Chng Jun(91)/Jun(90)		-1.4		-1.8		-1.1	0.7 #		3.5

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	4.724		2.741		191.3		4.009		3.818	
February	4.733	1.6	2.742	0.3	169.8	-7.8	4.019	1.7	3.850	2.1
March	4.750		2.746		145.1		4.036		3.890	
April	4.757		2.750		165.3		4.041		3.872	
May	4.789	4.3	2.773	4.6	172.8	0.1	4.073	4.9	3.900	5.0
June	4.813		2.799		168.2		4.096		3.927	
July	4.808		2.792		151.3		4.095		3.943	
August	4.823 *	3.4	2.802 *	4.5	162.2 *	-19.3	4.106 *	4.0	3.944 *	5.2
September	4.848		2.819		166.3		4.128		3.962	
October	4.870		2.833		166.1		4.147		3.981	
November	4.891	5.5	2.845	5.9	168.8	19.3	4.164	5.4	3.995	4.9
December	4.912		2.857		166.6		4.181		4.015	
January 1992	4.939		2.874		169.9		4.205		4.035	
February	4.964	6.0	2.889	6.0	172.6	10.5	4.226	6.0	4.054	5.8
March	4.985		2.898		171.6		4.244		4.072	
April	5.011		2.916		175.3		4.265		4.090	
May	5.033	6.0	2.927	6.0	175.4	15.7	4.284	5.9	4.108	5.5
June	5.062		2.945		182.4		4.309		4.126	
Chng Jun(92)/Jun(91)		5.2		5.2		8.5		5.2		5.1
Chng Jun(91)/Jun(90)		3.7		3.2		-7.3		3.9		4.4

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.
# is the percentage change in the labor force

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	3707.8		440.3		1205.8		2061.7		2643.1	
February	3739.9	1.9	453.5	-12.3	1215.3	-1.2	2071.2	6.9	2660.1	-1.5
March	3780.7		472.2		1217.0		2091.5		2688.1	
April	3763.0		450.0		1212.3		2100.7		2669.3	
May	3791.4	5.3	448.8	-1.1	1228.0	3.4	2114.6	7.8	2679.2	2.7
June	3819.2		463.3		1228.6		2127.3		2696.8	
July	3835.7		471.6		1231.2		2132.8		2707.0	
August	3836.4 *	5.5	457.6 *	8.5	1235.0 *	4.0	2143.8 *	5.7	2696.0 *	2.8
September	3854.2		461.0		1239.0		2154.2		2698.7	
October	3873.1		464.7		1241.6		2166.7		2705.7	
November	3887.2	5.0	462.7	1.3	1245.6	3.4	2178.9	6.7	2708.3	1.3
December	3906.3		467.3		1248.7		2190.3		2714.4	
January 1992	3926.4		469.9		1253.8		2202.7		2720.7	
February	3945.3	5.9	472.4	6.5	1258.5	4.2	2214.3	6.7	2727.1	2.6
March	3963.5		474.5		1262.5		2226.5		2733.1	
April	3981.2		477.0		1265.7		2238.4		2738.0	
May	3999.4	5.6	479.1	5.9	1269.7	3.7	2250.5	6.6	2742.8	2.3
June	4017.1		481.2		1273.6		2262.3		2747.2	
Chng Jun(92)/Jun(91)		5.2		3.9		3.7		6.3		1.9
Chng Jun(91)/Jun(90)		4.5		-3.2		3.4		7.3		0.1

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	147.81		21.71		7.6		96.91		29.19	
February	151.10	-1.7	22.48	1.1	8.3	-30.1	97.86	-1.1	30.76	-5.9
March	151.47		22.58		8.7		97.74		31.15	
April	150.97		22.64		7.9		97.48		30.85	
May	152.71	5.6	22.77	7.8	8.4	11.9	98.64	3.2	31.31	12.1
June	152.93		22.63		9.0		98.72		31.58	
July	153.67		22.66		9.1		99.08		31.93	
August	153.19 *	3.7	22.57 *	-0.9	8.8 *	29.7	99.36 *	4.5	31.26 *	4.5
September	153.91		22.65		9.1		99.68		31.58	
October	154.56		22.74		9.0		99.89		31.93	
November	154.64	3.4	22.78	2.2	8.9	-0.0	100.21	3.3	31.65	4.6
December	155.44		22.72		9.1		100.46		32.26	
January 1992	156.15		22.79		9.2		100.87		32.49	
February	156.83	5.0	22.90	3.1	9.3	12.4	101.25	4.2	32.68	9.0
March	157.39		23.07		9.3		101.57		32.75	
April	157.95		23.15		9.4		101.83		32.97	
May	158.52	4.5	23.18	5.5	9.5	8.9	102.15	3.7	33.19	6.3
June	159.07		23.35		9.5		102.46		33.26	
Chng Jun(92)/Jun(91)		4.0		3.2		5.6		3.8		5.3
Chng Jun(91)/Jun(90)		1.8		-0.8		-8.2		3.0		0.3

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	0.847		0.648		0.199		0.802	
February	0.992	-41.0	0.788	-27.3	0.204	-70.1	0.876	-17.3
March	0.907		0.742		0.165		0.892	
April	0.977		0.801		0.176		0.913	
May	0.983	40.9	0.831	71.9	0.152	-40.9	0.966	57.3
June	1.032		0.862		0.170		0.999	
July	1.070		0.894		0.176		1.002	
August	1.084 *	39.7	0.899 *	37.0	0.185 *	54.3	0.985 *	15.6
September	1.099		0.905		0.194		0.997	
October	1.121		0.923		0.198		0.976	
November	1.138	20.0	0.935	15.3	0.203	45.0	1.004	1.5
December	1.146		0.938		0.208		1.015	
January 1992	1.148		0.935		0.213		1.027	
February	1.163	10.4	0.939	4.7	0.224	39.6	1.043	17.5
March	1.179		0.954		0.225		1.048	
April	1.206		0.967		0.239		1.062	
May	1.216	20.4	0.982	16.3	0.234	39.2	1.069	12.1
June	1.234		0.988		0.246		1.077	
Chng Jun(92)/Jun(91)		19.6		14.6		44.7		7.8
Chng Jun(91)/Jun(90)		-13.1		-3.1		-42.8		-11.0

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	142.1		102.6		161.8		406.5		366.5	
February	144.9	-7.5	109.6	-15.8	155.6	-26.8	410.1	-17.9	369.3	-17.3
March	140.9		108.6		152.4		401.9		362.0	
April	146.8		107.9		151.2		405.9		364.1	
May	135.9	-11.0	108.3	5.5	154.7	-5.1	398.9	-4.5	357.1	-7.1
June	132.9		109.0		157.8		399.6		356.6	
July	131.6 *		108.1 *		161.4 *		401.1 *		357.2 *	
August	131.3	-18.9	108.2	0.6	164.9	29.1	404.4	3.3	359.4	0.5
September	131.5		109.3		167.9		408.7		362.7	
October	131.8		109.8		170.2		411.8		364.5	
November	132.2	2.1	109.5	5.0	172.6	20.3	414.3	10.1	366.0	7.5
December	132.5		110.3		174.8		417.6		368.5	
January 1992	132.1		110.8		175.8		418.7		368.6	
February	132.6	1.1	110.4	3.4	177.0	11.3	420.0	5.9	369.1	3.4
March	132.9		111.2		178.8		422.9		370.6	
April	133.4		111.6		181.8		426.8		373.1	
May	133.9	4.3	112.4	5.5	184.6	17.5	430.9	10.1	375.7	6.8
June	134.5		112.9		187.1		434.5		377.8	
Chng Jun(92)/Jun(91)		1.2		3.6		18.6		8.7		6.0
Chng Jun(91)/Jun(90)		-15.2		0.6		-14.4		-11.1		-12.0

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	388.4		117.79		33.96		31.72	
February	388.5	-3.2	117.55	-18.8	33.76	-32.2	32.21	-18.1
March	386.0		112.12		31.94		31.41	
April	385.1		116.14		28.75		31.73	
May	381.9	-5.4	118.43	5.0	28.04	-44.4	32.13	5.9
June	380.0		117.13		29.28		32.85	
July	377.8		130.26		36.62		31.90	
August	376.9 *	-5.4	126.43 *	39.1	33.37 *	99.3	32.27 *	-0.8
September	376.5		125.26		32.28		32.35	
October	377.2		126.07		32.46		32.16	
November	378.0	1.0	125.47	-7.2	32.65	-19.6	32.34	2.0
December	378.9		123.36		31.73		32.51	
January 1992	380.1		124.84		32.28		32.59	
February	381.3	3.6	125.16	-0.2	32.46	5.8	32.54	3.6
March	382.9		124.73		33.47		32.73	
April	384.3		123.69		33.21		32.89	
May	385.9	4.7	123.28	-3.8	33.16	7.3	33.14	6.4
June	387.2		124.16		33.58		33.36	
Chng Jun(92)/Jun(91)		1.9		5.7		14.7		1.6
Chng Jun(91)/Jun(90)		-1.1		-7.8		-9.9		1.5

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	831.4		8.20		106.6		80.0	
February	828.2	0.4	8.57	-18.9	105.7	-9.6	79.1	-11.8
March	819.6		8.57		105.0		78.4	
April	816.9		8.86		105.5		78.6	
May	811.7	-6.6	8.41	7.8	106.4	2.2	79.1	-0.5
June	808.9		8.55		107.1		79.5	
July	805.7 *		8.27		107.6		79.7	
August	805.2	-3.2	8.43 *	-8.4	108.0 *	6.4	79.8 *	3.9
September	806.9		8.56		108.4		80.0	
October	808.5		8.33		108.7		80.0	
November	811.3	2.8	8.52	2.7	109.1	4.1	80.1	1.5
December	814.8		8.58		109.5		80.3	
January 1992	817.6		8.59		109.9		80.4	
February	820.5	4.5	8.61	8.3	110.1	3.7	80.4	1.3
March	823.4		8.74		110.3		80.4	
April	827.2		8.81		110.4		80.3	
May	830.1	4.7	8.78	6.3	110.7	2.3	80.3	-0.2
June	832.7		8.75		111.1		80.5	
Chng Jun(92)/Jun(91)		2.9		2.3		3.7		1.3
Chng Jun(91)/Jun(90)		-0.4		-8.7		-2.7		-5.3

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	134.8		122.4		119.3		134.4	
February	135.1	3.5	121.5	-3.2	117.2	-8.6	134.8	5.2
March	135.0		120.9		115.7		135.2	
April	135.3		121.1		115.5		135.5	
May	135.7	2.1	121.8	-0.5	116.1	-5.1	136.2	4.2
June	136.0		121.4		116.0		136.7	
July	136.3		121.0		116.0		136.9	
August	136.9 *	3.7	121.7 *	0.9	116.9 *	0.9	137.4	3.7
September	137.5		122.4		115.5		137.9	
October	137.9		122.7		117.1		138.4	
November	138.2	4.0	123.0	4.2	117.4	4.3	138.7	3.9
December	138.6		123.2		117.6		139.1	
January 1992	139.0		123.5		118.0		139.5	
February	139.4	3.4	124.0	3.1	118.1	2.6	140.0	3.5
March	139.8		124.2		118.3		140.3	
April	140.2		124.6		118.6		140.7	
May	140.6	3.6	124.9	3.4	118.8	2.3	141.3	3.7
June	141.0		125.2		119.0		141.6	
Chng Jun(92)/Jun(91)		3.7		3.1		2.6		3.6
Chng Jun(91)/Jun(90)		4.6		3.2		2.5		4.0

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	140.3		112.4		135.4		151.5		110.9	
February	140.6	3.5	113.1	0.8	135.3	0.8	152.2	4.7	111.0	0.1
March	140.6		113.4		134.9		152.7		111.0	
April	141.0		112.9		135.1		152.9		111.5	
May	141.5	2.5	113.0	0.5	135.4	0.6	153.7	3.5	111.7	2.8
June	141.6		113.3		135.7		153.8		112.0	
July	141.7		114.1		135.1		154.3		112.3 *	
August	142.3 *	2.6	114.3 *	4.6	135.6 *	0.7	154.8 *	3.5	112.5	2.7
September	142.8		114.7		136.2		155.3		112.7	
October	143.1		114.9		136.5		155.7		113.0	
November	143.5	3.6	115.1	2.7	136.8	3.5	156.1	3.5	113.2	2.4
December	143.9		115.4		137.1		156.6		113.3	
January 1992	144.3		115.7		137.4		157.1		113.6	
February	144.7	3.2	116.0	2.7	137.7	2.7	157.5	3.6	113.8	2.4
March	145.0		116.0		138.0		158.0		114.1	
April	145.4		116.2		138.3		158.5		114.4	
May	145.8	3.2	116.5	2.1	138.6	2.6	159.0	3.8	114.7	3.1
June	146.2		116.8		138.9		159.5		115.0	
Chng Jun(92)/Jun(91)		3.2		3.1		2.4		3.7		2.6
Chng Jun(91)/Jun(90)		4.4		1.2		4.4		4.6		1.0

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
January 1991	-7.38		138.7		5548		4128		5.6
February	-5.50	-25.8	140.2	-11.4	5560	2.2	4125	-2.8	13.3
March	-4.07		141.3		5565		4118		10.3
April	-4.51		141.8		5578		4115		3.6
May	-4.79	61.9	142.8	7.8	5614	4.2	4121	-0.1	4.2
June	-4.02		143.6		5654		4132		4.8
July	-4.86 *		145.8		5662		4136		-0.6
August	-5.13	-63.0	145.8 *	8.5	5699	6.0	4147	2.4	-2.1
September	-5.06		145.5		5732		4158		-3.9
October	-5.43		145.6		5755		4159		-3.5
November	-5.27	-24.6	146.7	1.7	5796	7.0	4178	3.0	-6.2
December	-5.20		146.5		5834		4195		-6.9
January 1992	-4.67		146.6		5856		4199		-8.1
February	-4.66	44.2	147.4	2.5	5879	6.1	4199	2.5	-8.4
March	-4.41		147.6		5908		4210		-8.9
April	-4.06		148.0		5948		4228		-8.5
May	-3.87	51.8	148.2	2.9	5966	6.1	4223	2.3	-9.3
June	-3.52		148.6		5990		4229		-9.6
Chng Jun(92)/Jun(91)		12.4		3.5		5.9		2.3	
Chng Jun(91)/Jun(90)		57.4		-1.7		3.3		-0.6	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	83.51		167.4		8.27		177.95	
February	82.12	-19.0	171.8	23.2	8.03	-11.4	197.75	54.2
March	88.12		174.1		8.29		203.57	
April	91.41		166.8		8.21		207.71	
May	92.29	45.9	168.0	-6.7	8.27	6.0	206.93	32.9
June	95.18		169.6		8.47		207.32	
July	95.19		169.9		8.45		208.10	
August	93.51 *	3.0	173.0	11.3	8.16 *	-3.8	215.56 *	10.6
September	92.27		175.3		8.10		214.19	
October	92.01		176.0		8.12		213.94	
November	91.89	-6.7	178.7	14.3	7.96	-9.5	221.29	13.6
December	92.23		181.0		8.02		223.24	
January 1992	91.17		180.9		8.08		218.89	
February	91.13	-2.9	181.2	7.3	8.05	2.9	220.05	1.3
March	91.84		183.1		8.14		221.59	
April	92.27		185.8		8.23		223.43	
May	93.18	7.1	184.8	7.9	8.31	11.2	222.21	4.0
June	93.46		185.1		8.38		221.40	
Chng Jun(92)/Jun(91)		-1.8		9.1		-1.1		6.8
Chng Jun(91)/Jun(90)		3.0		4.0		0.4		5.4

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	326.8		826.7		3331.0		6.91		6.28	
February	332.8	15.3	836.4	6.0	3354.3	3.6	6.25	-52.7	6.20	-40.0
March	335.2		843.0		3374.9		6.12		5.92	
April	333.5		842.1		3382.7		5.91		5.71	
May	335.4	4.2	851.6	7.5	3394.6	4.7	5.78	-30.7	5.61	-25.9
June	336.2		858.4		3398.6		5.90		5.75	
July	337.6		859.7		3388.0		5.82		5.71	
August	339.4 *	5.4	865.1 *	7.1	3386.9 *	-0.2	5.65 *	-13.0	5.44 *	-13.1
September	341.5		871.2		3396.4		5.52		5.33	
October	342.8		875.2		3405.6		5.32		5.38	
November	344.1	5.6	879.5	6.7	3417.1	3.2	5.26	-25.0	5.27	-13.8
December	345.6		883.7		3428.4		5.23		5.23	
January 1992	347.0		888.3		3441.2		5.28		5.28	
February	348.3	4.9	892.3	6.0	3456.7	4.7	5.37	9.7	5.37	6.4
March	349.7		896.6		3470.4		5.53		5.48	
April	351.0		900.7		3484.5		5.58		5.62	
May	352.6	4.9	905.5	5.9	3497.1	4.9	5.57	15.1	5.68	24.5
June	353.9		909.5		3510.2		5.61		5.74	
Chng Jun(92)/Jun(91)		5.3		6.0		3.3		-4.9		-0.2
Chng Jun(91)/Jun(90)		9.2		5.8		3.3		-30.3		-24.8

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1991	9.04		7.08		7.10		7.17		9.52	
February	8.83	-14.7	6.91	-11.4	6.49	-48.7	6.60	-48.4	9.05	-28.7
March	8.93		7.10		6.41		6.45		9.00	
April	8.86		7.02		6.07		6.06		9.00	
May	8.86	-1.0	6.95	0.2	5.92	-32.9	5.91	-36.6	8.50	-20.9
June	9.01		7.13		6.11		6.07		8.50	
July	9.00		7.05		6.05		5.98		8.50	
August	8.78 *	-3.4	6.91 *	-5.4	5.71 *	-15.8	5.65 *	-17.6	8.50 *	-7.5
September	8.72		6.85		5.58		5.56		8.50	
October	8.75		6.88		5.53		5.51		8.50	
November	8.64	-6.2	6.73	-8.2	5.47	-19.4	5.50	-16.3	8.32	-10.2
December	8.69		6.76		5.43		5.43		8.00	
January 1992	8.75		6.82		5.48		5.45		8.00	
February	8.73	2.9	6.81	2.8	5.53	4.0	5.51	1.5	8.00	-8.4
March	8.79		6.88		5.58		5.54		8.28	
April	8.92		6.97		5.64		5.60		8.50	
May	8.97	9.6	7.02	10.5	5.61	7.7	5.59	8.0	8.50	21.7
June	8.99		7.04		5.65		5.63		8.50	
Chng Jun(92)/Jun(91)		-0.2		-1.3		-7.5		-7.2		0.0
Chng Jun(91)/Jun(90)		-2.5		-1.5		-25.3		-26.5		-15.0

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MONTHLY PROJECTIONS
September 1991

Dr. Donald Ratajczak, Director
For Release: Monday, October 14, 1991

HOW MUCH MORE CAN THE FED DO?

All the factors that normally rise during an economic recovery are rising. Housing starts reached bottom in January and are up more than twenty percent from those lows. Residential construction spending will be a substantial contributor to GNP during the summer and, probably the fall. Consumer durables are rebounding. Although consumer durable expenditures fell in the spring, they are up by double digits during the summer. Auto unit sales have been growing at double digit rates for two consecutive quarters and also should grow significantly in the fall. (Because auto fleets accounted for much of the gain in summer sales, consumer spending on autos actually fell in the summer, but should rebound in the fall.) The dollar's strength has been stalled, and a meaningful decline in the dollar's value may develop. This should re-ignite export activity, which showed little change during the past three months. In short, the interest sensitive parts of the economy are responding to the decline in interest rates. However, their response is halting and muted.

Certainly, the trade sector has been adversely impacted by the dollar's strength earlier this year. Despite falling short-term interest rates, the dollar rallied because a recessionary shrinking of the trade deficit coincided with the pledge payments from abroad for the Persian Gulf Conflict. A temporary shortage of dollars was created that blunted the normal exchange impact from falling short-term rates and the subsequent rebound in competitiveness and export activity. Now that the pledge payments are nearly completed and the rebound domestically will widen the trade gap, the dollar should again show weakness. This, in turn, should increase the demand for American goods, if the remainder of the world does not slide into recession. (The Asian economies are slowing, but many of the European economies are improving. Also, some Latin countries, such as Mexico, Chile, and Brazil show growth prospects.) This channel through which reduced interest rates leads to increased activity has been delayed by the temporary dollar shortage, but should now become important.

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However, the other interest sensitive parts of the economy are responding more lethargically than in past recoveries. Apartment activity has been slow to respond to lower financing costs because the sources of financing for many builders has been curtailed by the FIRREA restraints upon thrift lending to large borrowers. Many of these builders have not been able to persuade commercial banks that they are good customers. Thus, apartment activity reached an historic low in April. Opening up financing sources is more important than providing lower costs of financing for the apartment builders. The single family home market has been appropriately strong for first time buyers as lower interest rates improve loan qualification prospects. However, uncertainty about housing values has reduced the financing available on previously built homes. Many owners are unwilling to sell at the values for which banks are willing to appraise the properties for financing purposes. As a result, the move up market is languishing. Only the relo and high income properties are able to overcome this sluggishness. Again, lower interest rates are not, by themselves, able to resolve these problems.

Of course, the heavy debt load of households along with the fear of unemployment are combining to restrain consumer purchases of big-ticket items. More than 800,000 households will declare bankruptcy this year. That alone will restrain lenders from adding to lines of credit. Also, the decline in housing values is reducing the ability to tap home equity to finance large purchases, although many car buyers clearly are using their home equity lines instead of consumer installment debt to purchase their vehicles. Moreover, the slow rebound in total housing sales (typically three previously owned homes are sold for every new single family home) has slowed the rebound in furniture and furnishings.

Finally, inventory investments, which also are interest sensitive, continue to be restrained by uncertain sales prospects and the restraint upon bank credit lines that smaller companies face. Although most banks declare that a "credit crunch" does not exist, they also admit that their lending standards have been raised. Also, prices remain weak for most commodities. Therefore, the storage costs of inventories remain high despite the reduction in finance charges. As the warehouses empty and some of these commodity prices increase, inventory investment will become more responsive to lower finance charges.

Of course, capital expenditures are more sensitive to sales anticipations than to interest rates. Actually, orders remain reasonably robust. The decline in orders last month is natural following unusually strong orders the month before. Indeed, capital spending normally falls early in a recovery as corporations try to improve their balance sheets. Therefore, the modest gains recorded this year may reflect a positive response to falling interest rates. Even so, capital spending will be subdued until sales anticipations significantly improve.

All of this suggests that further declines in interest rates, while helpful, will not provide significant gains in economic activity. In short, the heavy debt loads, changes in financial channels, lending reluctance by commercial banks, and uncertainty about future activity are reducing the responsiveness of economic activity to interest changes alone.

The Administration, therefore, is correct in worrying about the efficiency of the financial channels. With the demise of more than a third of the thrifts and with the aggregate ratio of assets to capital at 5.74 percent for banks with more than $10 billion in assets, the ability of the financial system to respond to increased injections of Federal Reserve liabilities is limited. Indeed, current trends suggest that the monetary base as measured by the Federal Reserve bank of St. Louis will grow 7.8% during the fall while M2 will be up less than 2 percent. The monetary base has grown more rapidly than other monetary aggregates throughout the past year. An inability to convert these Federal Reserve injections into loans, which have decline 8% in the past twelve months, is responsible for such weak money response.

However, the steps taken by the Administration are very minute. Changing the appraisal of real estate for loan purposes to a cash flow as opposed to a market value method will add some loans, but at the expense of increased real estate risk. Removing limitations on preferred stock to be included in a bank's capital base will raise the capacity to support assets and indirectly encourage lending, but only a few large banks are impacted. Providing a streamlined appeal process for banks challenging audited recommendations only means anything if the field auditors are using different criteria from those above. Will the Administration request that the criteria be changed by the reviewers? Isn't this what created many of the problems with the thrifts? In other words, the changes are small or ill-advised.

Of course, banks need more capital. Only with additional capital can they begin to grow the asset base, thereby increasing loans. Wide interest rate spreads have helped, but they have accelerated the decay of market share in the banking industry. Moreover, the gains in operating earnings will take time to overcome the reduced capital caused by bad loans. Something that reduces the cost of banking could simultaneously add to capital without further impairing market share. (For those who say that banks merely are proving their inefficiency to allocate capital as their shares fall, they must recognize that efficient lending exists only in a finance classroom. Large customers, many of whom are using their previous successes as embodied in their balance sheets, have many alternative sources of financing. However, rapidly growing companies with large debts relative to revenues may not get financing, although their new projects provide much larger returns than those financed by the giants. In other words, the past receives better financial terms than the future. Only mortgage bankers, or enlightened bankers who take risks for community gains, Gianinni comes to mind, have provided the difference. When bank capital is scarce, enlightened bankers are especially scarce.)

The removal of reserve requirements on CD's was one of those cost reduction measures that should have been pursued more aggressively. A reserve requirement reduction probably would do more than any discount rate cut to rebuild bank capital without further eroding their market share. Of course, corporate leaders prefer interest rate reductions, because that lowers their current operating costs. Eventually, the improved profits will stimulate expansion and new hiring, but the process is slow and uncertain. This alternative of reducing the costs of operating banks will provide new lending along with probable further declines in interest rates. Allowing banks to hold interest bearing treasury bills in their reserves at the Federal Reserve also would accomplish the reduced banking cost method of stimulating additional lending, but without the immediate need to use the excess reserves that a reserve requirement cut would generate.

Unfortunately, the current roll-off of CD's is adding to banking's woes. Because of the sharp reduction in yields, investors are withdrawing such time deposits in record numbers to seek higher gains elsewhere. Thus, deposits continue to shrink, leading to further restraints on bank activity. (Much of this CD drain has been going to money market accounts, which are a half-way house before they probably are recycled into bond funds.) Given these constraints and inefficiencies in the banking system, Federal Reserve action other than those that reduce the cost of banking will have limited effect upon the economic recovery. Pushing on a string was invented to explain the ineffectiveness of monetary policy when sales expectations are especially dismal. However, this recovery suggests that it also should be used to describe the effectiveness of monetary policy when the banking system is restrained by capital shortages.

Monthly Statistical Highlights

	Sept 1991	October 1991	Nov 1991
Payroll Employment		66,000	89,000
Index of Hours Worked		-0.1%	0.1%
Household Employment		-217,000	154,000
Civilian Unemployment Rate		6.9%	6.9%
Personal Income	0.4%	0.4%	0.4%
Savings Rate	4.0%	4.0%	4.0%
Personal Consumption	0.4%	0.4%	0.5%
Retail Sales		0.2%	0.4%
Auto Sales		8.7*	8.9*
Housing Starts	0.9%	1.8%	2.0%
Housing Permits	4.3%	-2.1%	2.9%
Construction Expenditures	-0.8%	0.1%	0.6%
Business Inventories	-0.1%	0.1%	0.1%
Orders for Durable Goods	0.4%	0.5%	0.5%
Orders - Nondefense Capital Goods	1.2%	2.0%	-4.1%
Industrial Production	0.3%	0.5%	0.5%
CPI	0.2%	0.3%	0.2%
PPI		0.1%	0.2%
Consumption Deflator	0.3%	0.2%	0.3%
Leading Indicators	0.4%	-0.5%	0.1%
Currency Index		-2.4%	-2.8%
Equity Index		-0.1%	0.3%
Real GNP (annual rate)	1.2%	4.8%	2.9%
M1 (annual rate)		9.4%	2.4%
M2 (annual rate)		1.0%	2.0%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Payroll employment rose an anemic 24,000 in September while manufacturing jobs actually contracted. However, this is not the end of the recovery. State and local governments reduced their employment by 35,000 but retail and service jobs grew more than 70,000. Thus, the sluggish service sector is beginning to stir. Also, hours worked in the private economy rose 0.5%. For the quarter, hours rose 1.1%, strongly suggesting positive growth for the summer. **Initial claims** have begun to rise, however. In recent weeks, claims have average more than 420,000. This still is enough to raise payrolls, but only by about 50,000 per month. The discrepancy between payrolls and household employment was partially erased by a surge in household employment during September. This caused the unemployment rate to dip. A half-million discrepancy in employment by the two measures still exists, but downward revisions in payrolls probably will not be large when the new benchmark estimates are made early next year.

Hourly earnings grew only 0.2% in September and are only 3.2% above previous year levels. The diffusion index fell marginally below 50% because of the weakness in manufacturing, but much of the manufacturing decline probably results from faulty seasonals that overstated the manufacturing gain in August. Certainly, no strengthening of the employment markets is obvious, but modest gains appear to continue.

PERSONAL INCOME AND OUTLAYS-Some estimates of low GNP growth during the summer are based upon the apparent sluggishness in personal income. Assuming moderate gains in September, personal income only grew 3.3% annually during the third quarter. The slowing was mostly in the property income and farm income areas, as earnings in wages and salaries grew about the same during the summer as the spring. Surprisingly, taxes have fallen even more sharply, causing disposable income to nearly maintain gains of the spring. Clearly, such sluggish gains in tax collections relative to personal income cannot persist. Even with the reduced tax burden, savings have fallen sharply during the quarter because of the rebound in durable expenditures. Savings are projected to drift upward for the next year.

Following heavy utility consumption in the spring with an early summer, service expenditures grew sluggishly during the summer. More normal activity is expected in the fall. Clothing, food, and gasoline sales have become sluggish, causing little growth in nondurable expenditures. These are basic staples whose weakness reflects the cautious consumer activity. A discrepancy between consumer expenditures for durable goods and retail auto sales is difficult to understand. However, the discrepancy between auto unit sales and retail auto dollars reflects the acceleration of fleet acquisitions following a sluggish winter and spring for the rental companies.

CONSTRUCTION-Although housing starts continued to inch upward in August, sales of previously owned homes continued to weaken. Also, building permits were down sharply. If mortgage rates had not continued to fall below 9%, housing may have faltered in recent weeks. The large percentage gains projected for apartments merely reflects the magnitude of weakness that currently prevails there.

The rebound in housing starts is beginning to be reflected in strong gains for residential expenditures. Public construction also spurted during the summer following sluggish spring gains. More modest public activity is expected in the next year as state and local governments struggle to overcome their budget woes. However, nonresidential activity fell more sharply during the summer. Financing was absent for hotels, and commercial building. Few desired to build industrial activity. Orders have begun to stabilize after falling nearly 18% during the past year. Traditionally, however, activity takes 10-12 months to respond to orders.

The construction deflator has rebounded because of increases in materials prices, especially lumber. However, prices probably fully reflect the supply implications associated with that problem. Therefore, some moderation in construction inflation should be expected.

BUSINESS ACTIVITY-The August decline in durable goods orders was no surprise. Indeed, orders are up 40% for the quarter according to the latest projections. For **nondefense capital goods**, the orders are up a sharp 73%. Some moderation is expected in the fall. Furthermore, this may lead to a continuation of sluggish shipments of capital goods through the fall. Some improvement then is expected during the winter. Defense shipments also are expected to struggle in the fall. But growth next year also should be modest for defense, where the backlog has been falling irregularly for more than a year.

Manufacturing inventories are being liquidated at the same rate during the summer as in the spring. Indeed, with a smaller inventory valuation, liquidations may be larger after inflation adjustment. Most of the recent liquidations are in goods in process, suggesting some problems for sustaining manufacturing activity. Finished goods at the manufacturing level actually rose in August. Also, total business inventories are not being liquidated as much as in the spring. Therefore, inventories will be liquidated during the summer, but by less than during the spring. Thus, GNP will benefit from strong gains in consumer durables and residential construction. Inventory liquidations will be less, but this will be offset by a deeper trade deficit. Government continues to contract and the non-auto components of producers' durables are declining. On balance, however, and economic expansion is continuing to develop.

Industrial production is up sharply during the summer and will continue to grow strongly in the fall. This has increased capacity utilization, but not to any worrisome levels. Indeed, additional capital spending is not expected at these relatively low levels of utilization.

PRICES-Inflation certainly is not intensifying at this time. Although prices of consumer durables have intensified as auto dealers provided less year-end incentives than normal, prices of nondurables weakened. Falling food and energy prices accounted for most of the weakness, but other nondurables also showed price restraint. The moderation in service inflation is large housing service related, but some moderation in wage inflation also adds to restraint there. Prices during the summer quarter appear to be an aberration. Stronger price gains are expected for nondurables in the quarters ahead. Also, auto dealers are now rebating new model cars, which means smaller price increases for the new cars than normal. Another quarter of restraint in prices for housing services is expected. Even so, inflation should gradually intensify from these relatively modest gains during the summer.

Our projected gains in the PPI are based upon a formula that may be generating estimates that are too high. Stronger economic gains than projected probably are needed to create 4% gains in commodity inflation next summer. To that extent, the CPI may be showing too much inflation. Even so, moderation is apparent during the next twelve months. Certainly, even with large gains in construction prices, the **GNP deflator** will continue to be modest during the next twelve months.

MISCELLANEOUS-Although the **merchandise trade balances** appear to be deteriorating sharply, only a modest slowing in export growth and some rebound in import activity account for those large percentage changes during the summer. Further deterioration is likely in the early months of inventory rebuilding, but the dollar's projected weakness during the fall should restore competitiveness to American goods. The only question about the dollar is how much and how long it will fall. By next summer, our trade balances should again be improving in the absence of weakness abroad. In the meantime, the trade sector is adding little to economic activity.

The leading indicators continue to rise rapidly during the summer, but last month's unchanged performance should be followed by several choppy months. This could give the impression of a stalled recovery. Modest gains, however, are projected from our formula, and I see no reason to differ with that assessment.

The growth in estimated GNP during the summer implies unusually strong gains in indirect taxes, depreciation, statistical discrepancy, or corporate earnings. No evidence of a surge in earnings is apparent. Nevertheless, reasonable assessments of hours worked and productivity gains suggest that GNP grew moderately during the summer. As inventories begin rebuilding, strong GNP gains are likely during the fall. However, little follow-through is likely following the inventory adjustment until the trade sector again improves next spring.

Adjusted profits are not growing sharply because of the increased tax liability that always develops when inventory prices begin rising. Also, corporate taxes were surprisingly low in the spring and should rebound this summer. However, profits should grow more strongly later in the year.

FINANCIAL MARKETS

More sluggish economic activity than expected has led to lower inflation than previously projected. This, in turn, has reduced the inflation premium for long-term bonds. Coupled with an unusually steep yield curve, investors have aggressively sought the higher yields of long-term instruments. Assuming real rates are 4% and using the projected GNP deflator as a measure of inflation premium, the long-term government bond should average slightly above 7.5%. However, inflation should rise later next year, leading to some inflationary fear and a higher inflation premium. Thus, interest rates will average near 7.75% for several months before gradually drifting upward in the spring.

The household sector has slowly increased savings and slowing increased mortgage activity. During the summer, savings fell, however, causing upward pressures on interest rates. Downward pressures should reappear during the fall and winter and remain well into next year. However, the household sector is hardly changing behavior, leading to little influence on credit market pressures.

Government borrowings are beginning to recede as state and local governments try to balance their accounts through higher taxes and reduced spending. Falling defense spending should help contain the government deficits for the federal government. Of course, the savings and loan bailout will require another $80 billion of borrowing this year, but that is a portfolio shift as assets are brought into the public sector. While the official deficit is larger than $330 billion and has not declined, the national income accounts deficit is less than $180 billion and is marginally falling. Further modest declines in the n-i-a deficit are expected. Thus, the government sector is probably reducing its pressures upon credit markets, if only slightly.

At this time, the corporate sector is dictating the changes in credit market pressures. With inventory liquidations only slowly abating and cash flow improving significantly as sales improve, downward interest rate pressures persist. Moreover, the inventory financing is on the short end of the market, leading to greater weakness in short-term rates than long-term rates. These liquidations are expected to end in the fall, although no evidence of this is yet apparent. Modest inventory accumulation is expected by Christmas, but cash flow should improve to finance the inventory investment. Only early next year will any upward pressure on interest rates develop. Interest rate pressures then will gradually build during the year, although government restraint and household savings could intensify and cancel out these gains.

Foreign investors will be less attracted to dollar assets as the dollar weakens. On the other hand, early phases of a recovery offer higher than normal returns on direct investments. On balance, capital flows probably will diminish into the United States, causing some upward pressures on rates. Of course, a sharp enough decline in the dollar's value could cancel out those concerns and prevent serious capital outflows, but such an outcome is unlikely.

On balance, modest forces for further interest rate declines are prevailing through the fall. When inventory investment resumes, however, some gains in interest rate pressures are likely. Rising household savings and reduced government borrowing could offset these pressures, but they are not expected to be strong enough to do so. Therefore, interest rates will bottom either late this year or in February and then gradually rise. The upward drift in rates will become more intense later in 1992.

EQUITY MARKETS-After a modest rise in August, equity markets have again stalled. Little gain is expected as long as earnings remain modest, as in the summer, but interest rates fall. These offsetting factors lead to equity price neutrality. A sharp weakening of the dollar during the fall will continue to nearly offset stronger gains in profits but continued declines in interest rates. Strong gains are likely in the spring, as profits rebound, the dollar stabilizes and interest rates remain unchanged. Then, rising interest rates will need to be offset by profit gains, which are expected through next summer. A 9% gain in equity values and a 12% total return on equity investments is projected for the next year.

Even with modestly promising equity conditions, institutions have exhausted most of their cash positions. Thus, infusions from new investors will be needed to preserve the rebound. Some infusion is likely, but it should not be large. Thus, a choppy market remains likely into the spring. The Dow then should break out of its current range and soar to nearly 3300 by next summer. A falloff next fall is likely but not yet certain at this time.

Because of the weak rebound, most cyclical stocks provide little change of price appreciation. Some metals, like the aluminums and copper producers may do better, but most cyclicals are fully priced. However, the multi-nationals should again take the lead as the dollar begins to weaken. This will increase the dollar value of their earnings abroad. Later, some of the capital goods industries, such as equipment makers, telecommunications producers, and computer makers should rebound. Most of the medical suppliers should continue to do well, but the bio-tech industries are very heavily priced and may stall. Financially sensitive stocks have some opportunities, but investors should withdrawal their positions by the latter half of next year. Similarly with the utilities.

Thus, further opportunities should develop in the equity markets, especially after this October, but the upturn will remain slow. Next spring probably will provide the largest gains in equity values since this spring.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
April 1991	108736		120.0		117398		6.6	10.28	
May	108887	-1.2	121.2	-0.4	116591	0.3	6.9	10.32	4.7
June	108885		122.1		116884		7.0	10.37	
July	108859		120.7		116712		6.8	10.36	
August	108936	0.3	121.5	1.1	116416	-0.7	6.8	10.40	2.7
September	108960		122.1		117165		6.7	10.42	
October	109026 *		122.0 *		116948 *		6.9 *	10.45 *	
November	109115	0.7	122.1	2.3	117102	1.1	6.9	10.48	3.4
December	109194		122.3		117193		6.9	10.51	
January 1992	109287		122.4		117264		6.9	10.54	
February	109376	1.0	122.6	1.5	117316	0.8	7.0	10.57	3.5
March	109462		122.8		117384		7.0	10.60	
April	109542		123.0		117492		6.9	10.63	
May	109613	0.9	123.1	1.8	117585	0.9	6.9	10.67	3.8
June	109697		123.3		117691		6.9	10.71	
July	109768		123.5		117804		6.8	10.74	
August	109856	0.9	123.7	2.0	117893	1.0	6.8	10.77	3.9
September	109945		124.0		117965		6.8	10.81	
Chng Sep(92)/Sep(91)		0.9		1.6		0.7	0.8 #		3.7
Chng Sep(91)/Sep(90)		-1.0		-1.8		-0.6	0.5 #		2.7

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1991	4.756		2.750		165.3		4.040		3.872	
May	4.787	4.2	2.773	4.6	168.6	0.7	4.071	4.7	3.902	4.7
June	4.811		2.799		173.2		4.093		3.920	
July	4.804		2.791		145.7		4.090		3.945	
August	4.824	3.3	2.804	4.4	162.5	-23.0	4.110	4.2	3.948	5.6
September	4.845 *		2.818 *		166.8 *		4.130 *		3.963 *	
October	4.863		2.825		167.6		4.146		3.978	
November	4.881	4.9	2.837	4.8	164.8	22.4	4.162	5.3	3.998	4.6
December	4.903		2.851		167.2		4.182		4.015	
January 1992	4.926		2.861		175.2		4.202		4.026	
February	4.947	5.4	2.875	5.4	176.1	23.9	4.221	5.6	4.044	4.9
March	4.969		2.888		175.8		4.239		4.063	
April	4.991		2.902		179.2		4.259		4.079	
May	5.018	5.9	2.915	5.9	188.0	30.6	4.283	6.0	4.095	5.1
June	5.046		2.932		196.3		4.307		4.111	
July	5.072		2.945		199.8		4.331		4.131	
August	5.095	6.4	2.959	6.2	199.4	33.7	4.350	6.7	4.151	5.5
September	5.125		2.977		206.9		4.377		4.170	
Chng Sep(92)/Sep(91)		5.8		5.7		24.0		6.0		5.2
Chng Sep(91)/Sep(90)		3.1		2.8		13.2		3.6		3.3

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.
# is the percentage change in the labor force

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1991	3762.6		450.0		1212.3		2100.4		2669.0	
May	3793.0	5.0	448.9	-1.4	1228.0	3.0	2116.1	7.7	2680.6	2.5
June	3811.6		462.2		1224.5		2124.5		2691.9	
July	3836.6		473.8		1231.2		2131.6		2708.8	
August	3840.2	5.9	461.9	12.6	1232.7	3.5	2145.6	6.0	2702.9	3.9
September	3855.7 *		466.5 *		1232.9 *		2156.3 *		2706.4 *	
October	3871.3		468.4		1234.6		2168.2		2710.7	
November	3890.5	4.8	472.1	3.3	1237.4	1.7	2181.0	7.0	2717.5	1.6
December	3907.5		473.2		1240.0		2194.3		2721.9	
January 1992	3919.5		474.0		1239.6		2205.8		2722.2	
February	3937.4	5.0	477.5	5.2	1242.6	1.8	2217.3	6.8	2726.5	1.5
March	3956.1		480.1		1246.6		2229.4		2731.8	
April	3971.8		479.6		1249.3		2242.8		2733.4	
May	3986.8	5.1	480.9	3.5	1251.6	2.7	2254.3	6.9	2735.6	1.4
June	4003.0		483.4		1252.7		2266.9		2739.0	
July	4022.5		484.6		1258.8		2279.1		2742.7	
August	4041.9	5.6	485.9	4.6	1263.0	3.6	2293.0	6.9	2748.1	1.7
September	4060.5		489.9		1264.9		2305.8		2751.8	
Chng Sep(92)/Sep(91)		5.3		5.0		2.6		6.9		1.7
Chng Sep(91)/Sep(90)		3.6		-4.4		1.5		6.7		0.1

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1991	150.97		22.64		7.9		97.48		30.85	
May	152.71	5.4	22.77	8.0	8.4	11.9	98.64	2.8	31.31	12.0
June	152.64		22.65		9.0		98.43		31.56	
July	153.20		22.88		9.1		99.08		31.24	
August	152.23	2.1	22.69	2.0	8.4	13.3	99.04	3.6	30.50	-2.4
September	153.30		22.82		8.6		99.06		31.42	
October	153.67 *		22.89 *		8.7 *		99.20 *		31.58 *	
November	154.32	3.5	22.98	2.5	8.9	7.9	99.42	1.4	31.92	10.8
December	154.65		22.95		9.0		99.63		32.07	
January 1992	154.72		22.92		9.0		99.60		32.20	
February	155.36	3.0	23.11	2.4	9.1	10.9	99.84	1.8	32.41	7.2
March	155.99		23.20		9.2		100.16		32.63	
April	156.15		23.29		9.1		100.38		32.48	
May	156.48	3.0	23.25	3.9	9.2	4.5	100.56	2.7	32.67	3.2
June	156.86		23.36		9.3		100.65		32.85	
July	157.49		23.45		9.3		101.14		32.90	
August	157.98	4.0	23.56	4.4	9.3	7.4	101.48	3.6	32.94	4.8
September	158.59		23.65		9.5		101.63		33.31	
Chng Sep(92)/Sep(91)		3.5		3.6		10.5		2.6		6.0
Chng Sep(91)/Sep(90)		0.9		1.5		-14.8		1.4		-3.9

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts Proj	Housing Starts AR%	Single Family Starts Proj	Single Family Starts AR%	Multi-Family Starts Proj	Multi-Family Starts AR%	Housing Permits Proj	Housing Permits AR%
April 1991	0.977		0.801		0.176		0.913	
May	0.983	41.3	0.831	73.9	0.152	-43.2	0.966	57.3
June	1.034		0.869		0.165		0.999	
July	1.059		0.887		0.172		1.005	
August	1.065	30.3	0.892	30.7	0.173	28.6	0.956	11.6
September	1.075 *		0.895 *		0.180 *		0.997 *	
October	1.094		0.907		0.187		0.976	
November	1.116	18.8	0.921	12.8	0.195	53.1	1.004	5.1
December	1.130		0.928		0.202		1.015	
January 1992	1.134		0.925		0.209		1.027	
February	1.159	15.0	0.938	8.7	0.221	48.8	1.043	17.5
March	1.166		0.951		0.215		1.048	
April	1.196		0.968		0.228		1.062	
May	1.214	20.4	0.980	16.3	0.234	39.5	1.069	12.1
June	1.213		0.974		0.239		1.077	
July	1.225		0.978		0.235		1.062	
August	1.238	11.9	0.993	5.4	0.238	10.7	1.069	0.0
September	1.263		0.990		0.246		1.077	
Chng Sep(92)/Sep(91)		17.5		10.6		36.7		8.0
Chng Sep(91)/Sep(90)		-2.8		4.3		-27.4		0.8

	Non-Residential Pr	Non-Residential AR%	Public Construction Pr	Public Construction AR%	Residential Construction Pro	Residential Construction AR%	Construction Expenditures Pr	Construction Expenditures AR%	Real Construction Expenditures Proj	Real Construction Expenditures AR%
April 1991	147.2		108.0		151.8		407.1		366.8	
May	136.4	-10.5	108.0	3.2	154.6	-4.3	399.0	-4.6	359.3	-5.4
June	132.6		107.3		158.3		398.2		357.3	
July	131.7		111.6		161.8		405.1		361.4	
August	128.6	-24.2	110.3	12.5	167.3	26.6	406.2	3.4	361.6	-0.9
September	128.0 *		111.1 *		163.9 *		403.0 *		357.9 *	
October	127.2		111.5		164.9		403.6		357.8	
November	126.5	-7.8	112.4	4.6	167.2	7.2	406.1	1.5	359.1	-1.1
December	126.8		112.9		169.5		409.2		361.2	
January 1992	126.9		112.2		171.2		410.3		361.2	
February	128.1	2.7	113.4	3.1	173.3	15.0	414.8	7.7	364.5	4.9
March	128.0		113.8		174.8		416.6		365.2	
April	128.4		114.2		177.6		420.2		367.3	
May	128.9	3.9	114.0	3.8	179.5	15.6	422.4	8.7	368.6	5.7
June	129.4		114.4		181.5		425.3		370.1	
July	130.0		114.9		183.0		427.9		371.4	
August	130.6	5.9	115.3	3.8	184.3	11.5	430.2	7.7	372.4	4.6
September	131.7		115.6		186.2		433.5		374.7	
Chng Sep(92)/Sep(91)		2.9		4.1		13.6		7.6		4.7
Chng Sep(91)/Sep(90)		-17.4		4.0		-4.2		-7.8		-9.1

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BUSINESS ACTIVITY

	Manufacturers Inventories Proj	Manufacturers Inventories AR%	Durable Goods Orders Proj	Durable Goods Orders AR%	Non-Defense Capital Goods Orders Proj	Non-Defense Capital Goods Orders AR%	Non-Defense Capital Shipments Proj	Non-Defense Capital Shipments AR%
April 1991	385.1		116.14		28.75		31.73	
May	381.9	-5.4	118.43	5.0	28.04	-44.4	32.13	5.9
June	380.0		117.13		29.28		32.85	
July	378.0		130.83		36.69		31.73	
August	376.8	-5.7	125.71	40.3	30.85	73.4	32.22	-3.3
September	375.5 *		126.23 *		31.23 *		31.96 *	
October	375.8		126.85		31.87		31.78	
November	376.4	-0.2	127.43	-1.3	30.55	-21.1	31.56	-4.7
December	377.5		127.21		30.67		31.42	
January 1992	378.4		127.24		30.92		31.45	
February	379.6	3.3	128.07	2.9	31.14	3.0	31.63	0.9
March	380.9		128.95		31.72		31.89	
April	382.4		128.86		31.53		31.76	
May	384.1	4.7	129.45	3.8	31.97	6.9	31.95	3.3
June	385.6		129.57		31.85		32.04	
July	387.2		129.93		31.97		32.21	
August	388.5	4.8	130.51	3.4	32.42	6.5	32.43	6.2
September	390.1		130.68		32.48		32.55	
Chng Sep(92)/Sep(91)		3.9		3.4		4.0		1.8
Chng Sep(91)/Sep(90)		-4.0		-0.5		-9.3		-1.4

	Business Inventories Proj	Business Inventories AR%	Defense Shipments Proj	Defense Shipments AR%	Industrial Production Proj	Industrial Production AR%	Capacity Utilization Proj	Capacity Utilization AR%
April 1991	816.9		8.86		105.5		78.6	
May	811.7	-5.9	8.41	9.0	106.4	2.4	79.1	-0.2
June	807.1		8.55		107.3		79.6	
July	804.5		8.25		108.0		79.9	
August	802.6 *	-4.4	9.10	2.7	108.2	7.1	80.0	4.6
September	801.5		8.64 *		108.5 *		80.1 *	
October	802.2		8.55		109.0		80.3	
November	803.4	0.4	8.59	-1.1	109.5	4.6	80.4	2.0
December	805.2		8.78		109.9		80.5	
January 1992	807.8		8.72		110.1		80.5	
February	810.9	3.5	8.75	4.6	110.4	3.3	80.6	0.8
March	813.2		8.74		110.6		80.6	
April	816.5		8.69		110.7		80.4	
May	819.4	4.4	8.73	-0.3	111.0	2.2	80.5	-0.5
June	822.6		8.77		111.2		80.5	
July	825.8		8.85		111.6		80.6	
August	829.1	4.9	8.81	3.2	111.9	3.4	80.6	0.7
September	833.0		8.74		112.2		80.6	
Chng Sep(92)/Sep(91)		3.9		1.2		3.4		0.6
Chng Sep(91)/Sep(90)		-2.7		-0.5		-1.7		-5.3

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1991	135.3		121.1		115.6		135.7	
May	135.7	3.0	121.8	-3.2	116.1	-8.6	136.3	4.5
June	136.0		121.4		116.0		136.8	
July	136.3		121.1		116.0		136.9	
August	136.5	2.6	121.4	-0.3	116.4	1.0	137.3	3.0
September	136.8 *		121.6 *		116.2 *		137.7	
October	137.2		121.8		116.9		138.0	
November	137.5	2.9	122.1	2.6	117.1	3.1	138.4	3.2
December	137.9		122.5		117.3		138.7	
January 1992	138.3		122.8		117.5		139.1	
February	138.8	3.7	123.3	3.7	117.9	2.5	139.5	3.3
March	139.2		123.6		118.1		139.9	
April	139.8		124.2		118.5		140.4	
May	140.2	4.1	124.5	4.1	118.8	3.2	140.7	3.5
June	140.6		124.8		119.0		141.1	
July	141.2		125.4		119.3		141.6	
August	141.6	4.1	125.7	4.0	119.5	1.2	142.0	3.7
September	142.0		126.1		118.6		142.4	
Chng Sep(92)/Sep(91)		3.8		3.7		2.1		3.4
Chng Sep(91)/Sep(90)		4.6		3.2		-1.9		4.0

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1991	141.0		112.9		135.1		153.0		111.0	
May	141.5	3.5	113.0	0.8	135.4	0.8	153.7	4.7	111.1	0.8
June	141.6		113.1		135.8		153.8		111.5	
July	141.6		113.9		135.0		154.4		112.0	
August	142.1	2.0	113.9	3.5	135.4	-0.2	154.7	3.3	112.3	4.3
September	142.5 *		114.2 *		135.7 *		155.2 *		112.6 *	
October	142.8		114.4		136.0		155.6		112.8	
November	143.2	3.2	114.7	2.4	136.3	2.9	156.0	3.2	113.1	2.7
December	143.6		114.9		136.7		156.4		113.3	
January 1992	144.0		115.2		137.0		156.9		113.6	
February	144.4	3.5	115.5	2.9	137.4	3.1	157.4	3.6	113.8	2.7
March	144.8		115.8		137.7		157.9		114.1	
April	145.3		116.1		138.0		158.5		114.4	
May	145.7	3.7	116.3	2.9	138.4	2.9	159.0	4.1	114.6	2.8
June	146.1		116.6		138.7		159.5		114.9	
July	146.7		117.0		139.1		160.1		115.2	
August	147.1	3.8	117.1	2.9	139.5	3.3	160.6	4.2	115.5	2.9
September	147.6		117.4		139.9		161.2		115.7	
Chng Sep(92)/Sep(91)		3.6		2.8		3.1		3.9		2.8
Chng Sep(91)/Sep(90)		3.3		1.5		1.8		3.9		1.3

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
April 1991	-4.51		141.8		5576		4109		4.3
May	-4.79	64.5	142.9	8.0	5611	4.0	4115	-0.5	5.2
June	-3.80		143.7		5650		4130		5.8
July	-5.90		145.3		5666		4139		2.1
August	-6.03 *	-238.6	145.3	7.8	5688	5.5	4142	2.4	-0.7
September	-5.84		145.9 *		5710		4146		-3.2
October	-6.02		145.1		5759		4172		-3.0
November	-6.28	-14.5	145.2	-0.3	5778	6.5	4175	3.2	-3.9
December	-6.08		146.0		5798		4179		-4.8
January 1992	-6.27		146.2		5823		4185		-5.6
February	-6.22	-3.5	146.9	3.8	5859	5.3	4200	1.9	-5.3
March	-6.05		147.2		5879		4202		-5.9
April	-5.73		147.6		5916		4215		-6.4
May	-5.81	32.4	148.2	3.8	5934	6.0	4216	2.3	-6.1
June	-5.27		148.7		5968		4229		-6.8
July	-5.21		149.2		6001		4238		-7.2
August	-5.53	18.9	149.8	4.4	6025	6.2	4243	2.4	-7.7
September	-5.21		150.3		6061		4255		-8.0
Chng Sep(92)/Sep(91)		10.8		3.0		6.1		2.6	
Chng Sep(91)/Sep(90)		35.7		1.7		3.3		3.1	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1991	91.41		164.4		8.21		207.71	
May	92.29	45.9	165.7	-11.8	8.27	6.0	206.93	32.9
June	95.18		167.2		8.47		207.32	
July	95.19		166.9		8.45		208.29	
August	93.47	1.4	166.4	1.7	8.14	-6.4	213.17	7.8
September	91.18		165.9		7.95		212.34	
October	88.96 *		168.3		7.88 *		212.03 *	
November	86.43	-22.4	170.4	9.9	7.73	-18.5	212.58	5.6
December	87.28		172.5		7.71		217.83	
January 1992	87.92		172.9		7.75		218.77	
February	88.15	3.6	176.4	12.7	7.72	0.7	224.67	16.0
March	88.92		177.5		7.89		223.24	
April	89.46		178.7		7.98		223.56	
May	90.27	9.2	179.0	9.3	8.04	14.6	224.26	4.1
June	91.15		180.8		8.15		225.59	
July	92.27		182.8		8.22		228.90	
August	93.16	12.8	182.2	7.2	8.21	8.9	230.62	11.1
September	93.73		183.1		8.26		231.83	
Chng Sep(92)/Sep(91)		2.8		10.4		3.9		9.2
Chng Sep(91)/Sep(90)		1.8		3.0		0.4		22.0

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1991	333.5		842.1		3384.3		5.91		5.71	
May	335.6	4.3	851.6	7.5	3397.2	3.6	5.78	-12.8	5.61	-14.4
June	336.2		858.4		3402.1		5.90		5.75	
July	337.1		859.6		3391.9		5.82		5.70	
August	340.1	5.8	866.3	7.1	3391.9	4.9	5.66	-14.2	5.39	-15.2
September	342.3		870.3		3391.5		5.45		5.29	
October	345.1 *		876.9 *		3394.3 *		5.19 *		5.04 *	
November	345.9	7.8	878.6	6.6	3399.8	1.2	5.12	-32.8	4.96	-31.9
December	347.8		882.7		3412.5		5.02		4.88	
January 1992	349.3		886.5		3421.7		5.03		4.91	
February	350.7	5.2	890.4	5.2	3430.5	3.5	4.98	-6.6	4.85	-4.5
March	352.1		895.0		3442.1		5.06		4.95	
April	352.9		897.8		3455.6		5.08		4.98	
May	354.7	4.4	902.4	5.2	3472.4	4.9	5.12	6.2	5.05	10.7
June	356.0		906.0		3489.3		5.10		5.06	
July	357.5		910.2		3500.2		5.13		5.11	
August	358.1	4.5	911.4	4.8	3512.7	4.8	5.16	2.9	5.15	9.9
September	359.8		916.8		3526.1		5.12		5.19	
Chng Sep(92)/Sep(91)		5.1		5.3		4.0		-6.1		-1.9
Chng Sep(91)/Sep(90)		8.2		5.9		4.9		-30.3		-24.8

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1991	8.86		7.02		6.07		6.06		9.00	
May	8.86	-3.8	6.95	-5.6	5.92	-15.6	5.91	-17.6	8.50	-7.5
June	9.01		7.13		6.11		6.07		8.50	
July	9.00		7.05		6.05		5.98		8.50	
August	8.75	-5.4	6.90	-6.5	5.72	-15.8	5.65	-19.3	8.50	-11.8
September	8.61		6.80		5.57		5.47		8.20	
October	8.53 *		6.71 *		5.34 *		5.51 *		8.00 *	
November	8.50	-10.3	6.68	-11.6	5.23	-33.8	5.33	-22.2	8.00	-17.7
December	8.62		6.73		5.07		5.22		8.00	
January 1992	8.65		6.76		5.09		5.23		8.00	
February	8.71	7.5	6.84	7.8	5.05	-10.6	5.17	-11.0	8.00	0.0
March	8.76		6.90		5.07		5.20		8.00	
April	8.84		6.93		5.14		5.22		8.00	
May	8.93	8.9	6.99	8.0	5.22	11.2	5.28	6.6	8.00	0.0
June	8.91		6.98		5.26		5.35		8.00	
July	8.94		7.04		5.31		5.41		8.00	
August	9.12	8.2	7.15	9.5	5.30	4.4	5.40	7.3	8.00	0.0
September	9.15		7.19		5.18		5.32		8.00	
Chng Sep(92)/Sep(91)		6.3		5.7		-7.0		-2.7		-2.4
Chng Sep(91)/Sep(90)		-2.5		-1.5		-25.3		-26.5		-15.0

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